MDC
COMMUNICATIONS

clear **focus** *customer* **solutions** *vigorous* **growth**

MDC COMMUNICATIONS CORPORATION

1997 Highlights

- A clear focus on our core business operations.
- Significant growth in sales, earnings, and cash flow from continuing operations.
- A doubling of market share in the Canadian cheque market, assured with long-term contracts.
- Major new contracts in our ticket and postage stamp businesses.
- Strong growth in our direct-to-consumer cheque business in the United States.
- Strong growth in our Communications and Marketing Services division.

Corporate Profile

MDC Communications Corporation is a publicly traded international organization with operating units in Canada, the United States, the United Kingdom, and Australia. We are a leading provider of security and specialty products and services, and communications and marketing services, to customers in more than 65 countries.

The Security and Specialty Products division provides security products and services in four business segments: personalized transaction products such as cheques, corporate payables, and credit, debit, and smart cards; security tickets such as airline, transit, and event tickets; stamps, both postal and excise; and business and technology services such as remittance processing, data imaging, data management, and secure fulfillment.

The Communications and Marketing Services division works in five distinct market segments of marketing communications: speciality advertising such as healthcare, agribusiness, and financial services; sales promotion and event marketing; public and investor relations; corporate image and design services; and publishing and information services.

in Canada MDZ.A and on the American Stock Exchange MDQ.
le on-line at: www.mdccorp.com.

focus

Clearly focused on our two core markets of security products and services, and marketing communications, we are well positioned with leading technologies and the knowledge to provide our customers with the ideas and solutions that will make a difference in their businesses. We have achieved excellent revenue growth, both internally and through acquisitions, and are committed to achieving ongoing growth of shareholder value.

Performance

Results from Continuing Operations

(in thousands of Canadian dollars except per share amounts)

For the year ended December 31	1997	1996	% Change
Sales	$ 280,020	158,211	+ 77
Operating income	35,646	22,188	+ 61
Cash flow	22,432	12,616	+ 78
Income	7,781	4,731	+ 64
Earnings per share (EPS)			
Basic	0.50	0.41	+ 22
Fully diluted	0.49	0.40	+ 23
Cash flow per share (CPS)			
Basic	1.69	1.09	+ 55
Fully diluted	1.41	0.99	+ 42

(in thousands of Canadian dollars except per share amounts)

For the fourth quarter ended December 31	1997	1996	% Change
Sales	$ 77,796	49,223	+ 58
Operating income	10,014	8,877	+ 13
Cash flow	6,660	4,593	+ 45
Income	2,209	1,730	+ 28
Earnings per share (EPS)			
Basic	0.15	0.15	+ —
Fully diluted	0.15	0.14	+ 7
Cash flow per share (CPS)			
Basic	0.47	0.38	+ 24
Fully diluted	0.39	0.33	+ 18

Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars)

As at December 31	1997	1996	% Change
Cash and short-term investments	$ 10,793	41,937	− 74
Other current assets	112,568	84,031	+ 34
Other assets	294,148	235,967	+ 25
Total assets	$ 417,509	361,935	+ 15
Current liabilities	$ 92,668	64,075	+ 45
Long-term indebtedness	205,634	190,907	+ 8
Minority interest	2,039	1,177	+ 73
Shareholders' equity	117,168	105,776	+ 11
Total liabilities and shareholders' equity	$ 417,509	361,935	+ 15

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MDC Class A subordinate voting shares are traded on The Toronto Stock Exchange in Canada MDZ.A and on the American Stock Exchange MDQ.

This Annual Report and other shareholder information are available on-line at: **www.mdccorp.com.**

measuring performance

growth

Our operating divisions showed significant growth in sales, earnings, and cash flow.

- **Results from continuing operations were strong, with growth in sales, operating income, and earnings per share.**

- **Sales revenues grew by 77% to $280 million, up from $158.2 million in 1996. This is the combined result of internal growth through significant market share gains, particularly in the financial marketplace, and the full-year impact of acquisitions such as Davis + Henderson.**

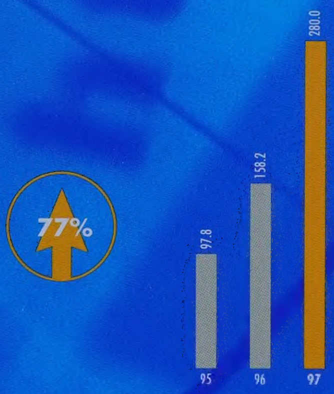
- **Consistent with the increase in sales revenues, income from continuing operations was up in 1997 by 64% to $7.8 million, an increase of $3.1 million from the $4.7 million earned in 1996.**

- **Fully diluted earnings per share increased 23% in 1997 to $.49 from $.40 in 1996.**

- **With the growth in sales and operating income, cash flow from continued operations increased in 1997 by 78% to $22.4 million, up from $12.6 million in 1996.**

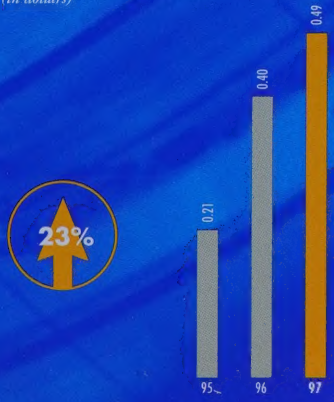
Results from Continuing Operations

Sales
(in millions of dollars)



Income
(in millions of dollars)

Earnings per Share — Fully Diluted
(in dollars)



Cash Flow
(in millions of dollars)

review of objectives & results

1997 Objectives

Fully implement our established global sales and marketing strategy for the Security and Specialty Products division, to achieve greater utilization of existing plant capacity.

Complete strategic acquisitions, primarily in the Security and Specialty Products division, which meet or exceed our stringent criteria.

Continue cost reduction and containment initiatives in the Security and Specialty Products and Direct Marketing and Home Shopping divisions.

Refocus our Direct Marketing and Home Shopping division on its core businesses, enhancing merchandise offerings, with the objective of sharply increasing sales and profits in 1998 and beyond.

results

Our share of the cheque business in Canada more than doubled during 1997, moving MDC into a clear leadership position.

1997 Results

Our goal is market share leadership in niche markets and the development of strategic new product lines that complement existing core offerings. We increased our market share in all major product categories: cheques, stamps, and tickets, in Canada, the United States, the United Kingdom, and other countries around the world, improving the utilization of existing facilities. Of special note, our market share of the cheque business in Canada doubled, moving us into a clear leadership position.

In our Security and Specialty Products division, we acquired Image Checks, a recognized U.S. direct-to-consumer cheque company, to increase our share of the rapidly growing American market. We also entered the security card market in Canada via two acquisitions, Bicybec, a Canadian security card manufacturer and the national card production unit of Canadian Imperial Bank of Commerce (CIBC).

In our Communications and Marketing Services division, we acquired Freeman, Rodgers, Bataglia, a social marketing and nutrition specialist, and Integrated Healthcare Communications, a specialist in the medical education symposium business, to enhance our capabilities in healthcare and wellness marketing.

We achieved cost reduction targets in the Security and Specialty Products and Direct Marketing and Home Shopping divisions through improved operating efficiencies.

We improved the merchandise offerings and operating systems in our Direct Marketing and Home Shopping division. We concluded that the Regal business is not a strategic focus for MDC, and therefore will be divested.

1998 Objectives

- **To increase shareholder value by improving the stability and growth of our earnings and cash flow.**
- **To ensure customer satisfaction in the fulfillment of the contracts we won in 1997.**
- **To increase our market share and develop new business opportunities in the Security and Specialty Products division.**
- **To enhance profitability in the Security and Specialty Products division through continued improvement in the average value of an order and cost-management initiatives.**
- **To substantially build the revenue and profitability of the Communications and Marketing Services division.**
- **To divest Regal Greetings and Gifts in a way that maximizes shareholder value.**

report to shareholders

"We have come through a period of transition and have a clear focus on our business. This has led to a better allocation of our resources to the businesses of greatest potential, reinforcing our commitment to create shareholder value."

Miles S. Nadal
President &
Chief Executive Officer

solutions

"We are not just suppliers of printed products and communications — we provide customers with integrated product and service solutions that help them achieve their strategic goals."

incentive

"Ownership is the most powerful incentive for success. Because the leaders of our companies own meaningful equity in their own enterprises they have a personal stake in achieving the strong financial growth our shareholders expect."

Perhaps our greatest accomplishment was the number of major long-term contracts we finalized with key customers during the year.

Q: What have been the most important milestones for MDC in 1997?

A: It has been an extraordinary year for MDC. We have come through a period of transition and have a clear focus on our business. We formalized a strategy to offer customers a portfolio of solutions based on our core competencies. This has led to a better allocation of our resources to the areas of greatest potential, reinforcing our commitment to create shareholder value.

We have also experienced strong internal growth by focusing on the needs of our customers and thereby winning a significant amount of new business. Perhaps our greatest accomplishment was the number of major long-term contracts we finalized with key customers during the year. Recently, the United States Postal Service (USPS) announced that Ashton-Potter USA had been awarded a five-year service contract potentially worth up to $100 million. In England, the Royal Mail has awarded MDC 33% of its stamp booklet volume, up from 15%. We also signed important new contracts to supply airline ticketing products for British Airways and Canadian Airlines International Ltd. In the financial services industry, we signed major long-term cheque provision contracts through Davis + Henderson, with Canada's five largest financial institutions — Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia, and The Toronto Dominion Bank — plus Canada Trust, Canada's largest trust company. These agreements are worth over $450 million and represent a doubling of our market share since MDC's acquisition of Davis + Henderson in July 1996.

We also entered into new areas that were consistent with our market focus. By acquiring the assets of the CIBC's national card production unit, MDC entered the security card business in Canada. We were subsequently awarded a five-year, $25-million contract to fulfill CIBC's Visa, ATM, and debit card needs.

To pursue the growing demand among financial institutions and other business segments for the outsourcing of back office services, we formed the Business & Technology Services group.

Finally, we continued to expand our existing businesses through strategic acquisitions. Building on our position with Check Gallery in the United States direct-to-consumer cheque business, we acquired Image Checks, another major American supplier.

Q: You say maximizing shareholder value is the top priority. How are you doing this?

A: First, by focusing on the specific market segments that have the greatest growth and margin potential, and where we have the ability to add value. Second, by fortifying the senior operating management ranks with top-calibre people to drive internal growth complemented by strategic acquisitions. Third, by building the Communications and Marketing Services division to a size where it makes sense to consider an initial public offering (IPO). And finally, by divesting Regal, a non-strategic business.

All acquisitions will have to fit strategically and enhance either our core competencies or our customer relationships.

Q: How predictable are the company's earnings?

A: With the seasonally fluctuating earnings stream of Regal eliminated, we expect to generate sustainable and growing earnings and cash flow.

Q: Is your management team in place?

A: For the most part, yes. Three key executives were hired in the past year. Paul Kelly, with extensive investment banking experience, strengthens our corporate development and corporate finance functions. Janice Wadge, who is highly experienced in marketing and strategic planning, heads business planning and corporate strategy. Jon Hantho, who has built a number of successful outsourcing businesses, leads the new Business & Technology Services group. These three executives have been added to an already strong management team that was assembled over the past few years.

Q: Do you and your management team have a clear focus on your businesses?

A: Yes, we are very focused. Our new business strategy has provided great clarity. We are building and acquiring capacity to provide value-added outsourcing solutions in targeted markets — to create opportunities for our clients and growth for our company.

Q: What are your expansion plans?

A: We plan to expand in four areas. First, we will increase the market share of our existing businesses through continued customer focus — particularly stamps, tickets, cards, and direct-to-consumer cheques. Second, we will leverage our existing customer relationships by providing additional business solutions through our Business & Technology Services and Card Services groups. Third, we will continue to expand globally in the security products business through acquisitions, particularly in the U.S. and Europe. Fourth, we will grow our Communications and Marketing Services division internally and through acquisitions, primarily in the U.S. market.

Q: What are your acquisition criteria?

A: All acquisitions will have to fit strategically and enhance either our core competencies or our customer relationships. We are looking for businesses that are leaders in their field, have consistent earning power, and possess strong management. Generally, we are not interested in turnaround situations or unfriendly takeovers that would distract us from our focus on developing targeted customer solutions. We will not pursue an acquisition unless we believe it can earn at least a 20% return on capital employed within a three- to five-year period.

LEFT TO RIGHT:

Peter Lewis
Executive Vice-President, Corporate Development

Paul Kelly
Senior Vice-President, Corporate Development

Walter Campbell
Senior Vice-President, Finance & Corporate Secretary

Janice Wadge
Senior Vice-President, Business Planning

Gordon Kilpatrick
Director, Corporate Development

Q Your capital spending has been aggressive for the past three years. Will it continue?

A Much of the critical investment spending has been completed. In the last three years, total capital expenditures were in excess of $75 million. We have now built an excellent foundation for pursuing our market-focused strategy.

Our intention for the near future is to invest where we can enhance our capabilities in strategic areas and technologies that will improve our competitive advantage.

Additionally, with considerable unused capacity in a number of our operations, we believe margins can be increased as this capacity is filled.

Q Are you comfortable with the corporation's balance sheet?

A Yes. We have over $100 million of undrawn, committed credit facilities. In addition, our operations are expected to generate healthy cash flows.

Q How did you achieve your 1997 objective to reduce costs?

A We are committed to ongoing continuous improvement in operating efficiencies to reduce costs and increase average order value. For example, we reduced packaging expenses in our cheque businesses, and initiated common paper purchasing for all our businesses, which created major savings. We believe there are additional savings in the Security and Specialty Products division which will be realized over the coming years.

Also, wherever there are strategic acquisition opportunities which complement existing businesses, there will be economies of scale. For example, for Image Checks, our recent U.S. acquisition in the direct-to-consumer cheque business, we now handle all the production through our Check Gallery facilities in Maryland.

Certainly, efficient operations are essential to our competitiveness, but we believe strongly that our best long-term opportunities lie in continued focus on revenue growth.

Q To what do you attribute the ongoing growth of the Communications and Marketing Services division?

A Our formula — what we call "corporate partnerships" with management — is a vital reason for our success. In an industry where the key assets are creative talent and relationship skills, we ensure that managers of our acquired businesses remain our partners and retain significant ownership interests.

You will see this division expand into the United States in 1998. Our strategy remains the same: make smart acquisitions at reasonable prices; focus on niche markets such as financial services, healthcare, and agriculture; attract and retain key people; and plan for management succession. Our goal is to earn at least 50% of divisional revenue from outside Canada within three years.

Our opportunity now is to expand our cheque business base into outsourcing opportunities in payment systems and services.

Q: How do you account for the considerable internal growth achieved by the Security and Specialty Products division in 1997?

A: Four things accounted for this growth. The first was focusing on market share growth in our key markets. Second, we targeted products and services with the greatest growth and margin potential. Third, we made significant investments to build the capabilities and technologies we needed to provide winning customer solutions. And perhaps most important of all, we have employees of truly extraordinary dedication at all levels of the organization.

We expect this growth to continue through internal growth and acquisitions. In 1998, the division is targeting revenues of more than $325 million, up from approximately $200 million in 1997.

Q: How will you build on this foundation?

A: Primarily, we will leverage our ability to offer outsourcing services. Davis + Henderson is a prime example. As an outsourcing partner, we fully assumed all aspects of cheque provision, including data handling, data processing, order fulfillment, even billing and payments. Our opportunity now is to expand these technologies into other outsourcing opportunities in payment systems, including all aspects of electronic payment, and cards such as credit, debit, telephone, and smart cards.

Our acquisition in 1997 of Bicybec Ltée. in Quebec, combined with our existing ownership of Placard Pty Ltd. in Australia, is our platform in cards. This has enabled us to acquire CIBC's national card production unit and forge a long-term agreement to supply the bank's Visa card requirements. This deal is a model for others to come. Our Card Services group enables us to consolidate these acquisitions and leverage our customer relationships in the financial services market.

One of the objectives of the Business & Technology Services group is to accelerate our expansion into the outsourcing of payment systems such as remittance processing, corporate payables, and data imaging of mutual fund and other financial statements. These are functions that customers will increasingly be assigning to third-party providers. We want to be there when they do.

Q: Why has MDC chosen to divest Regal Greetings and Gifts?

A: Let me say first that we have great confidence in Regal's prospects. The company was making good progress

We will translate growth into higher earnings and improved value for our shareholders.

until the Canadian postal strike last fall, which had a negative impact in the two core months of its main selling season.

But the main point here is an incompatibility with our core business focus as we go forward. Although Regal is fundamentally a good business, we want to focus on the two divisions where we are experiencing growth. Divesting ourselves of Regal is the right strategic move for our shareholders.

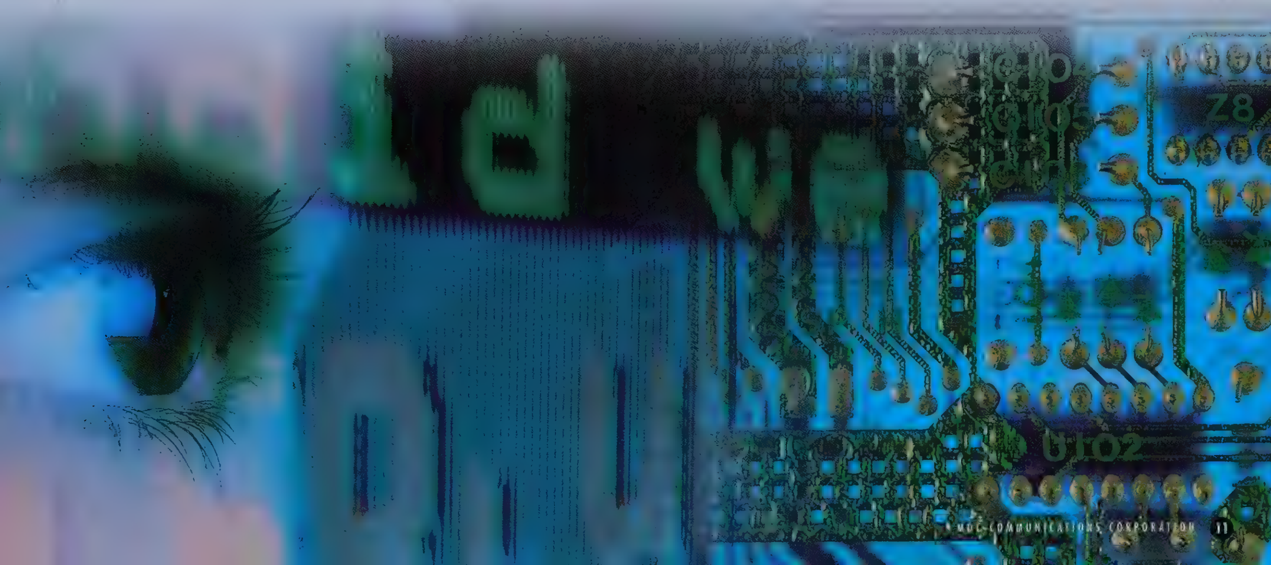
Q: **What do you see for 1998?**

A: Our strategy is clear. We will continue to focus on our customers and the business solutions they need to achieve their strategic goals most effectively. We will continue to put our energies into markets where growth is most promising. And we will translate that growth into higher earnings and improved value for our shareholders.

Attracting and retaining great people remains a top priority. We could not have accomplished what we did in 1997 without highly motivated employees and exceptionally talented managers. We have both. For me, this is at the heart of our success. Most of the leaders in our companies are partners or significant shareholders. As our growth advances and our performance continues to improve, our people stand to gain alongside our investors. There is no better formula for long-term success.

Miles S. Nadal

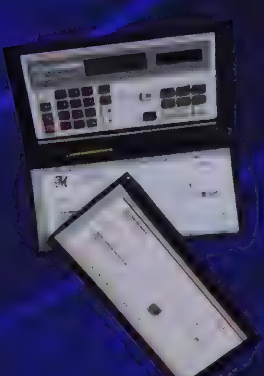
Miles S. Nadal
President and Chief Executive Officer



Security & Specialty Products Division

leadership

The most important source of growth in our Security and Specialty Products division is in developing services around the products we offer our customers.



Customer solutions that enhance customer success

Jon A. Hantho
President & Chief Operating Officer,
Business & Technology Services Group

Graham Searle
President & Chief Operating Officer,
Security and Specialty Products Division

Gregory J. McKenzie
President & Chief Operating Officer,
Security Card Services Group

Security features are attracting interest among new categories of potential clients. MDC is especially well equipped to meet this need with leading-edge securitization technologies.

Q: What is your outlook for the Security and Specialty Products division?

A: There are two very important trends that should work to our advantage.

The first is an increase in counterfeiting. Documents that were never considered in the same value category as currency are now being counterfeited, such as boarding passes for transit authorities, and commercial cheques. Security features are therefore attracting real interest among new categories of potential clients. MDC is especially well equipped for this business because we have invested in leading-edge securitization technologies for printing and information handling.

The other key trend is outsourcing. Increasingly, our customers realize that for certain non-core functions they are unable to be cost effective. They also find it difficult to keep up with rapid changes in technology and knowledge management. This opens the door to a private sector specialist like MDC.

Q: Why are you so bullish about the cheque business?

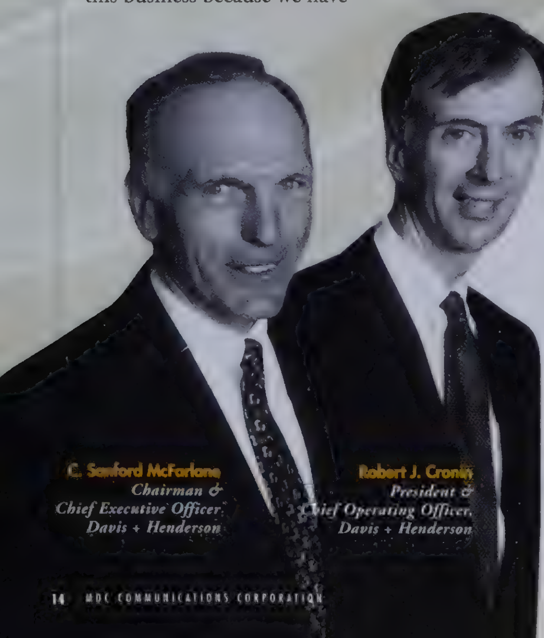
A: 1997 was a pivotal year for MDC in the cheque business. We doubled our market share in Canada from approximately 40% to 80%. Banks that had previously divided their chequing requirements between ourselves and competing companies, favoured MDC with 100% of their business in long-term contracts.

From a revenue standpoint, there is an attractive predictability in that kind of market share leadership. It's true that the Canadian cheque business has stabilized — the average Canadian writes only 5.5 cheques a month. But cheques will continue to occupy a substantial portion of the payment system for years to come, similar to patterns already established in Europe where new payment technologies have been prevalent for some time.

We are very bullish about the opportunities to grow our cheque business in the United States. The average American writes 22 cheques a month. The U.S. cheque market is growing, especially the direct-to-consumer segment which is growing at about 15% per year. In that market, in 1998, we anticipate attaining the No. 2 share position due to our pending acquisition of Artistic Greetings.

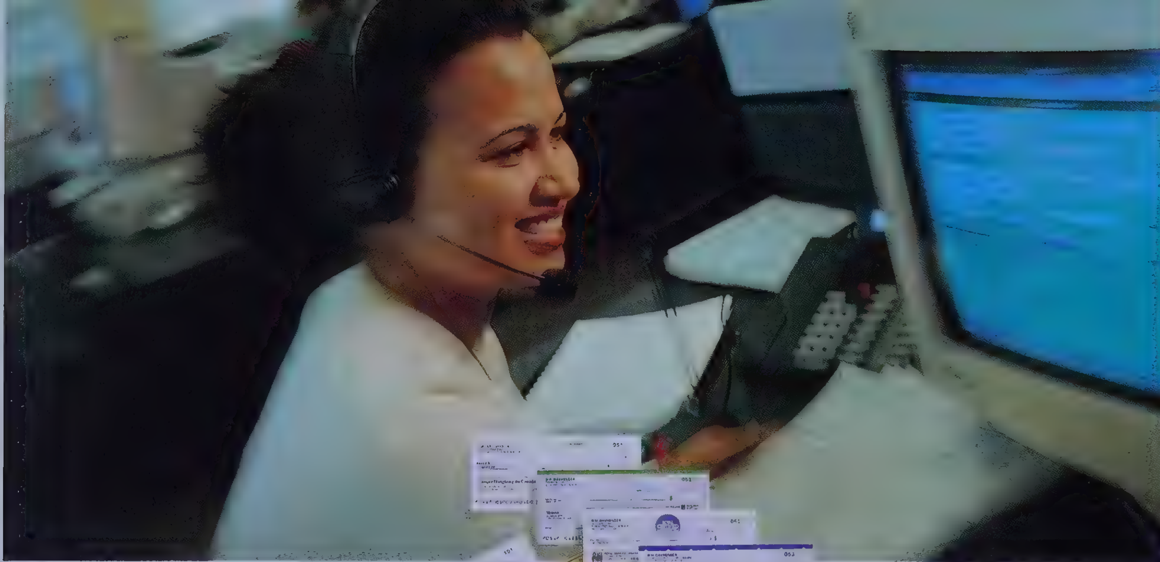
Q: How were you able to win such a dominant share of the Canadian cheque market?

A: We recognized that our customers were looking for a new means to meet their own strategic objectives, so we created a unique value proposition for them. In the case of the major financial institutions, the goal was to



C. Sanford McFarlane
Chairman & Chief Executive Officer, Davis + Henderson

Robert J. Cronin
President & Chief Operating Officer, Davis + Henderson



enhance customer service through greater branch efficiency. To help them attain this goal, and achieve recognition for MDC as a solutions provider, we invested more than $10 million at Davis + Henderson over the past few years in order processing and fulfillment technologies. Critical to our success was our

investment spending in software development to support PC banking, Internet banking, and call centre systems — the means, increasingly, by which our customers will connect with their customers.

Major financial institutions are seeking strategic partners with a proven record of service and cost containment who understand how to tie into their systems. MDC has proven

MDC has invested in the latest call-centre and telephony technologies to ensure rapid order processing and real-time response when customers request information.

to be that partner in the cheque business. Our strategy now is to leverage these capabilities and important relationships into new lines of business such as card services and other payment systems, as well as to enter other complementary market segments.

Our new Business & Technology Services group will be crucial in creating these solutions.

Q How does your strategy differ in the U.S. cheque market?

A In the United States, we are in the direct-to-consumer cheque market, which accounts for approximately US$300 million per year in revenue and is growing at about 15% per year.

Our strategy in the U.S. is to build on our subsidiary Check Gallery to establish market share leadership in the direct-to-consumer cheque business. The acquisition in 1997 of Image Checks, a major supplier based in Little Rock, Arkansas, substantially increased our share of the market. It also increased economies of scale. We achieved significant advertising efficiencies, and maximized capacity utilization at our Check Gallery facilities. The acquisition of a third large American direct-to-customer cheque company, Artistic Greetings, will elevate MDC from the No. 5 position in the market to No. 2. We expect to complete this acquisition early in 1998.

The acquisition of Image Checks, a major supplier based in Little Rock, Arkansas, substantially increased our share of the U.S. direct-to-consumer cheque market.

In 1997, MDC acquired the card production unit of Canadian Imperial Bank of Commerce, then signed a five-year, $25-million agreement to personalize and fulfill the bank's Visa card requirements.

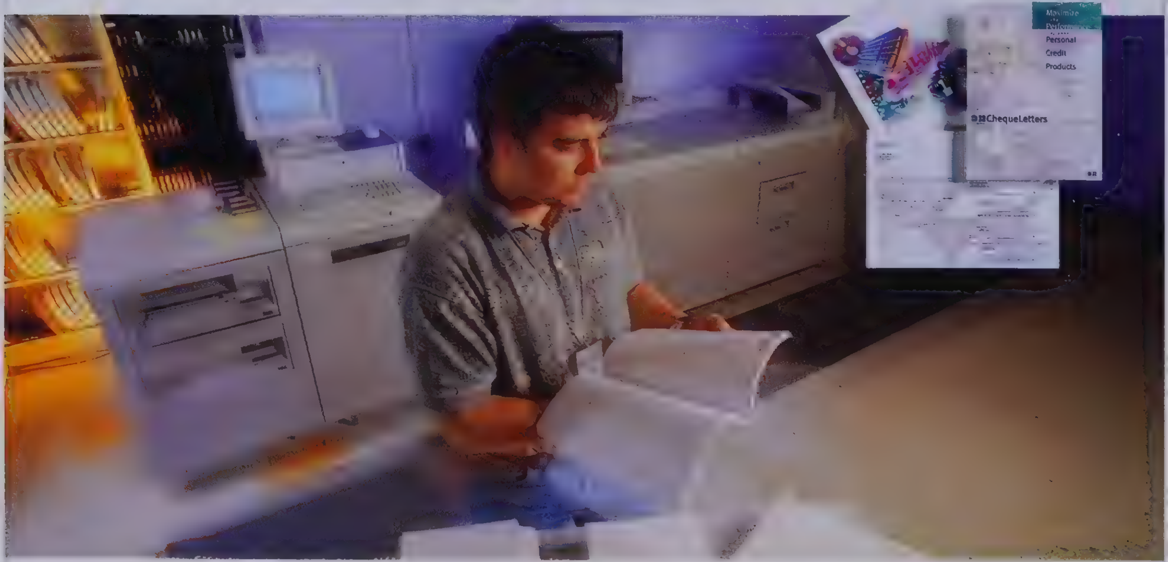
Q: Why is the security card business so appealing to MDC?

A: We see card services as a part of the payment service process that extends naturally from the cheque services we already supply to financial institutions. The purchase in 1997 of Bicybec Ltée., a Quebec-based manufacturer of plastic cards, was the first step in a comprehensive strategy to become a major provider of credit, debit, telephone, and smart cards in North America.

The security card market has global potential for MDC. We have established businesses in Canada and Australia, and are also investigating strategic partnerships for smart card applications in those markets.

Our strategy was advanced near the end of 1997 when MDC acquired the national card production unit of CIBC. Subsequently, we signed a five-year, $25-million agreement to personalize and fulfill all of CIBC's Visa card requirements. This arrangement allows the bank to outsource a specialized function and be assured of keeping pace with changing technology without the capital expense.

In fact, the security card business has global potential for MDC. In the next three years, it is estimated that the global market will grow to more than three billion cards. In 1996 we purchased Placard, a leading manufacturer of cards in Australia with a bureau operation for encoding the



Mercury Graphics produces season tickets for more than 100 North American professional and amateur sports teams.

cards with user data. During 1997, we broadened Placard's bureau capabilities and attained accreditation with MasterCard and Visa.

We are also investigating strategic partnerships for electronic security products and smart card applications as part of the evolution of our product portfolio.

Q: MDC's ticketing business has grown rapidly. Can such growth be sustained?

A: We see continuing opportunities in ticketing. It is a very fragmented and fast-growing market.

Revenue at our ticketing operations — which produce event tickets, airline ticketing products, and mass transit ticketing products — grew by 69% in 1997 to more than $30 million from less than $19 million in 1996. We are presently looking at several acquisitions that could further expand our geographic presence and broaden our product range.

With excellent momentum in event ticketing across North America, expansion into international markets, and new advances in technology, we anticipate significantly higher rates of growth in the future in this market. Mercury Graphics, the centrepiece of our ticketing group, already provides season tickets to more than 100 North American professional and amateur sports teams, including the Chicago Bulls, Los Angeles Dodgers, and Toronto Maple Leafs.

We also see growth in airline ticket-related products. Major new contracts were recently signed with British Airways and Canadian Airlines International Ltd.

Q: What advantages does MDC have in the ticket business?

A: MDC's ability to design and produce customized security features that meet the specific requirements of each customer has enabled us to increase our market share continually. Along with top-flight security and design capabilities, we also offer full-service solutions, including fulfillment and distribution. We are not just in the business of ticket manufacturing. Many competitors still are.

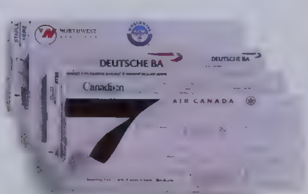
We can provide total solutions for our airline customers. For example, through a strategic alliance with The Astron Group we currently look after the manufacturing, warehousing, fulfillment, shipping, and distribution of all customer service documents for British Airways. This lowers their costs and improves the efficiency of their service. Again, it's a total solution.

We are solidly positioned with the major postal services and well equipped to meet their needs.

Q. How will changes in airline ticketing affect your business?

A. Our focus is on stable and growing products. We don't produce carbonized airline tickets. We produce all ATB-related documents. So the carbonized ticket business, which is declining, is not an issue for us.

As the travel industry moves to "e-tickets"—electronic ticketing—printed documents such as boarding passes, wallets, and other related documents, which we produce, will still be required.

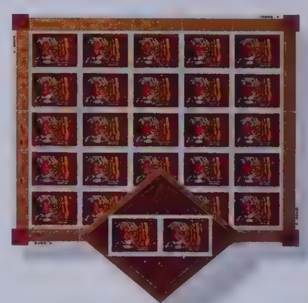


Q. If stamp contracts are normally tendered by governments in large multi-year commitments, how stable is MDC's stamp business?

A. Not only is our stamp business stable, it's growing. We are solidly positioned with the major postal services and well equipped to meet their needs.

In 1997, the U.S. Postal Service (USPS) tendered one of its largest-ever stamp production solicitations and announced in early 1998 that Ashton-Potter USA had been awarded a five-year contract potentially worth up to $100 million. The award included the USPS's "Celebrate the Century" commemorative stamp program, which will eventually have 10 separate issues of an estimated 188 million stamps per issue, each representing a decade of the 20th century. The company was also approved for the first time as a supplier of pressure-sensitive postage stamps, which currently account for over 80% of all U.S. stamp volume.

The House of Questa in England is one of four primary stamp producers for the Royal Mail. It was recently confirmed by the Royal Mail as one of two specialist stamp booklet suppliers, a designation that will more than double its share of booklet volume from 15% to 33%. The House of Questa recently introduced a new 850-screen super-litho technology that has already resulted in three new commemorative stamp contracts with the Royal Mail and a number of new contracts with other nations.



Ashton-Potter is also one of two suppliers to Canada Post. We produce 50% of Canada's stamps. For the past two years, Ashton-Potter has received Canada Post's Supplier Award of Achievement. We are confident that our strong relationship with Canada Post will continue.

MDC's highly secure facilities and work practices are vital to the production of sensitive products such as stamps and cards.

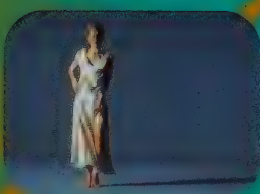
There is also excellent opportunity in producing stamps for the international market. With manufacturing facilities in North America and Europe and the ability to produce offset, intaglio, and gravure printing, in addition to both web and sheet-fed formats, MDC offers greater technical scope and diversity than most other stamp manufacturers in the world.

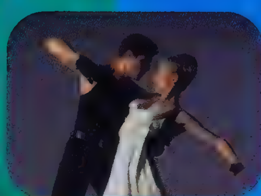
What are the opportunities for your three stamp businesses?

Our relationships with our key customers in the stamp business have advanced considerably in our core markets of Canada, the United States, and the United Kingdom. We have major contracts and a solid position in each of these markets.

We believe the commemorative stamp business, in particular, has excellent growth and profit potential on a global basis. Commemorative stamps are a lucrative business for postal authorities because of their importance to the philatelic community. As privatization continues to trend upward, more of that business will be shifted to the private sector, presenting MDC with further opportunities around the world.

Communications & Marketing Services Division

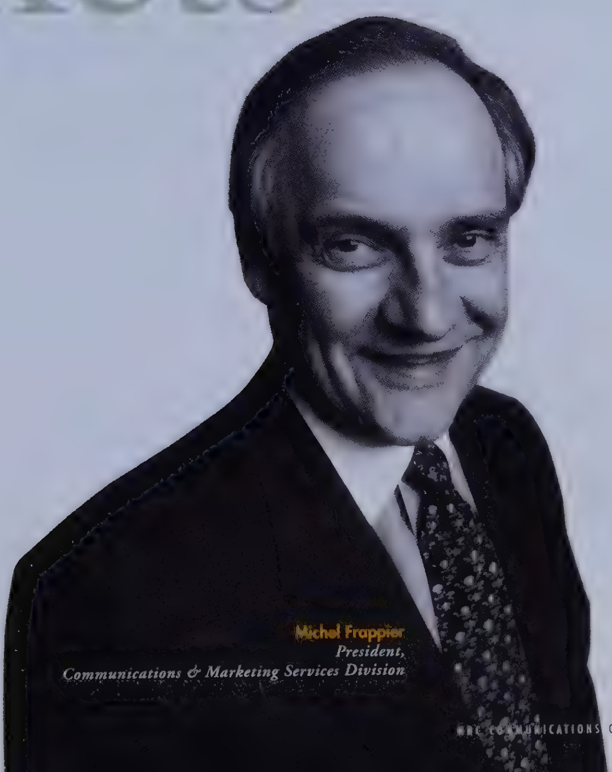




partnership

We ensure that managers of acquired businesses retain significant ownership interests. This is a vital reason for our success.

Building leadership in specialty markets



Michel Frappier
President,
Communications & Marketing Services Division

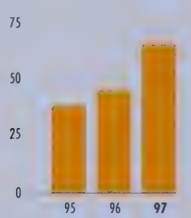
The Communications and Marketing Services division has systematically developed one of Canada's leading integrated healthcare marketing communications companies.

How was the performance of the division in 1997?

During the year, the Communications and Marketing Services division grew substantially. Revenues increased by more than $20 million or 45% over 1996. Operating income was up by 58% and there was a 47% increase in EBIT.

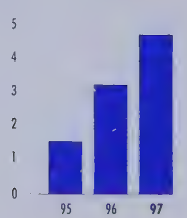
Sales

(in millions of dollars)



EBIT

(in millions of dollars)



Many companies in the division showed strong increases, both in revenue and earnings. For example, Ambrose Carr Linton Carroll, a leading creative advertising agency, increased revenues by 25%; Cormark Communications, an agribusiness agency, was up 24%; Accumark, a sales promotion firm, increased revenues by 36%; and Veritas Communications, which specializes in public and government relations, grew by almost 50%.

Typically, in the Communications and Marketing Services division, the entrepreneurs who originally owned the businesses remain partners with ownership interests as an incentive for growth.

Since 1995, earnings have increased dramatically and consistently, rising from an EBIT of $1.6 million in 1995 to $4.8 million in 1997.

What role did acquisitions play in 1997?

While our focus in 1997 was on internal growth, we still sought acquisitions to build our strength in specific niche markets.

Our healthcare segment is a case in point. We started off owning a relatively small healthcare advertising firm, then expanded into healthcare public relations and corporate communications, a move which has been a tremendous success. In 1997, we further developed and expanded our over-the-counter drug advertising through the acquisition of social marketing and nutrition specialist Freeman, Rodgers, Bataglia (FRB). FRB was merged with LBJ Advertising to form a wellness, social marketing, and healthcare marketing group, LBJ•FRB Communications. Their combined strengths better equip the firm to serve the emerging healthcare and wellness market. In early 1998, we also acquired Integrated Communications, a company specializing in the medical education symposium business. The bottom line is that the Communications and Marketing Services division has systematically developed a leading integrated healthcare marketing communications company in Canada. And this is only one example of the division's accomplishments.

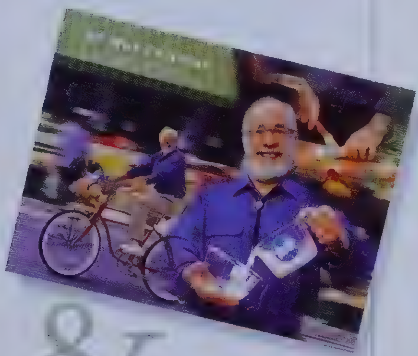
The Government of Ontario came to LBJ•FRB to develop this television commercial to discourage high-speed driving.

Puregon, a new fertility treatment, was introduced in Canada during 1997 with a national campaign developed by Veritas Communications.

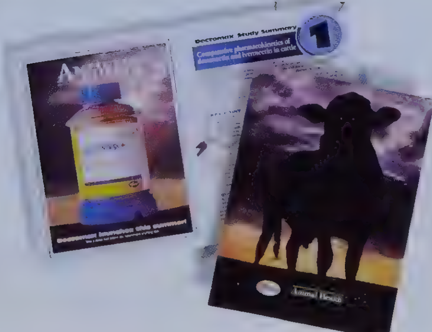
Veritas designed a public awareness campaign for Canada's biotechnology industry on the importance of patent protection.

specialty markets

wellness, healthcare & agribusiness



The Milk Calendar, created for the Dairy Farmers of Ontario by LBJ•FRB, promotes the use of milk in cooking.



Cormark Communications helped Pfizer successfully launch new products in the competitive cattle endectocide market.

The emphasis in human resources has been on the recruitment and retention of creative and mangement talent.

In 1997, MDC also acquired News Canada, a publication that offers governments, companies, and non-profit organizations a means for distributing tailored editorial messages in easy-to-use formats to more than 2,200 publications across Canada.

Q What management improvements have been made in the past year?

A Succession was our main concern in 1995 and 1996. By 1997, we had excellent people in top management positions in all our operating units.

Accumark developed a boldly effective in-store campaign for Borden Foods Canada's Classico sauces.

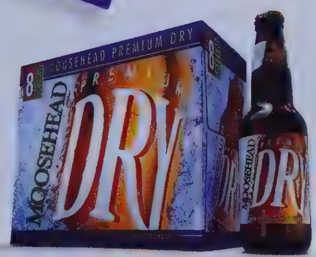
BELOW: *The annual meeting designed and staged by Rostrum for Alliance Communications Corporation set a new standard for public companies in Canada according to Bay Street analysts who attended.*

During 1997, we provided those partners with additional management support in three areas crucial to the continued success of the division: human resources, financial control, and business development. Because these are all creative businesses, the emphasis in human resources has been on the recruitment and retention of creative and management talent. The division also focused more rigorously on budgeting, forecasting, and cost analysis.

specialty markets

corporate & image design

Bryan Mills & Associates is one of Canada's leading producers of corporate annual reports. The Sun Life annual report (far left) was awarded "Best Canadian Report" at the 1997 ARC Awards in New York City.

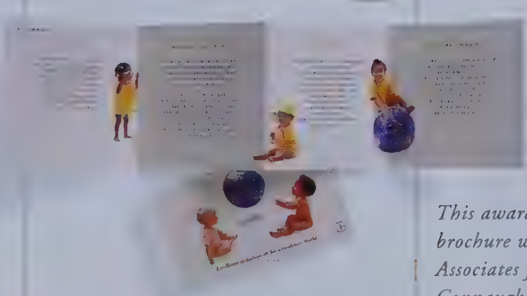


Strategies International created the wordmarks, labels, and carton designs for Moosehead Breweries' Beer product, helping the company build its brand identity and win the leading share in its regional market.

CINEPLEX ODEON
CORPORATION

Cineplex Odeon's high-profile corporate identity was designed by Savage Sloan.

Savage Sloan was asked by General Mills Canada to design the packaging for its recently launched Maple Frosted Wheaties, a major brand extension.



This award-winning vision statement brochure was created by Bryan Mills & Associates for the employees of Connaught Laboratories.

All acquisitions will have to show strong profitability, plenty of room for growth, and the ability to be a leader in their market niche.

What is the growth potential in the communications and marketing industry?

We think it's excellent. The industry accounts for roughly $150 billion worth of expenditures in North America. It is highly fragmented — made up of a large number of small players — so the growth-through-acquisition strategy we embarked on in Canada 12 years ago is still highly relevant.

What is your vision for the future?

Acquisitions in the United States will be a priority in 1998. Building our portfolio of American holdings will be accomplished using the same formula we have successfully applied

McManus Elliott designed the IPO kit for Chapters, Canada's largest book retailer. It effectively communicated to investors the company's plan to create as many as 75 retail book superstores throughout Canada.

in Canada. We intend to earn half our income in the U.S. by the year 2000. We are seeking businesses related to our existing market segments of: specialty advertising, corporate image and design, public and investor relations, and sales promotion and event marketing.

Consistent with our strategy, all acquisitions will have to show strong profitability, plenty of room for growth, and the ability to be a leader in their market niche. We will also seek to expand into complementary areas such as media services and integrated marketing services.

We will examine ways to capitalize the value of this division to MDC shareholders, including the possibility of an initial public offering. Going to the public markets makes sense especially if the division's value continues to not be fully recognized for our shareholders. As well as monetizing shareholder value, a public financing would help finance the next level of growth.

Honda Canada came to Ambrose Carr Linton Carroll to advertise the launch of the redesigned Accord, its most important new-model campaign in years.

TABLE OF CONTENTS

RESULTS OF OPERATIONS: 1997 COMPARED TO 1996

The following table summarizes, by division, the Company's results of operations for the years ended December 31, 1997 and 1996 (all amounts in Cdn. $ millions):

	1997	1996	Increase (Decrease)	Increase (Decrease)
Sales				
Security and Specialty Products	**195.3**	93.0	102.3	110%
Communications and Marketing Services	**66.8**	46.1	20.7	45%
Corporate and other	**17.9**	19.1	(1.2)	(6%)
	280.0	158.2	121.8	77%
Gross Profit				
Security and Specialty Products	**92.3**	38.9	53.4	137%
Communications and Marketing Services	**20.3**	13.1	7.2	55%
Corporate and other	**10.6**	10.6	—	—
	123.2	62.6	60.6	97%
Operating Expenses				
Security and Specialty Products	**61.3**	21.9	39.4	180%
Communications and Marketing Services	**11.4**	7.5	3.9	52%
Corporate and other	**14.8**	11.0	3.8	35%
	87.5	40.4	47.1	117%
Operating Income				
Security and Specialty Products	**31.0**	17.0	14.0	82%
Communications and Marketing Services	**8.9**	5.6	3.3	59%
Corporate and other	**(4.2)**	(0.4)	(3.8)	(950%)
	35.7	22.2	13.5	61%
Amortization				
Security and Specialty Products	**12.3**	6.0	6.3	105%
Communications and Marketing Services	**1.5**	1.1	0.4	36%
Corporate and other	**1.0**	0.7	0.3	43%
	14.8	7.8	7.0	90%
Minority Interests				
Security and Specialty Products	**0.4**	—	0.4	N/A
Communications and Marketing Services	**2.5**	1.3	1.2	92%
	2.9	1.3	1.6	123%
Gain on sale of capital assets	**—**	(0.6)	0.6	(100%)
Earnings, before interest and income taxes				
Security and Specialty Products	**18.3**	11.6	6.7	58%
Communications and Marketing Services	**4.9**	3.3	1.6	48%
Corporate and other	**(5.2)**	(1.2)	(4.0)	(333%)
	18.0	13.7	4.3	31%
Interest	**6.3**	6.2	0.1	2%
Earnings before income taxes	**11.7**	7.5	4.2	56%
Income taxes	**3.9**	2.8	1.1	39%
Income from continuing operations	**7.8**	4.7	3.1	66%
Income (loss) from discontinued operations	**(28.6)**	2.3	(30.9)	(1343%)
Net Income (loss) for the year	**(20.8)**	7.0	(27.8)	(397%)

MD&A: YEAR ENDED DECEMBER 31, 1997 VS. YEAR ENDED DECEMBER 31, 1996

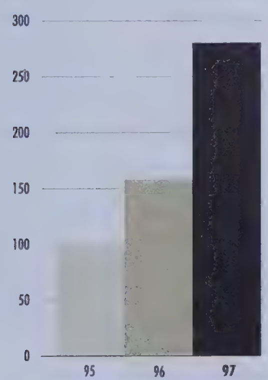
SALES

Sales in 1997 were $280.0 million, representing an increase of $121.8 million or 77% over the $158.2 million recorded in 1996. Year-over-year growth in sales is summarized as follows:

Security and Specialty Products	$ 102.3
Communications and Marketing Services	20.7
Corporate and other	(1.2)
	$ 121.8

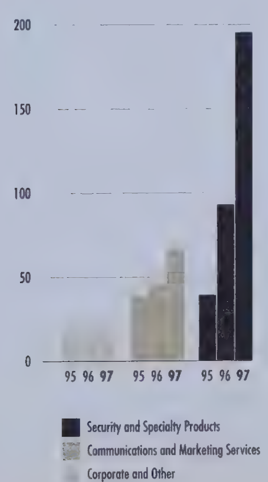
Total Sales

(in millions of dollars)



Sales by Business Segment

(in millions of dollars)



Security and Specialty Products Division

Sales of the Security and Specialty Products division totalled $195.3 million in 1997, up $102.3 million or 110% over the $93.0 million in 1996, and accounted for 84% of the increase in sales of the Company. Of the increase, $9.5 million was attributable to the acquisitions in 1997 of Image Checks Inc. ("Image") and Bicybec Ltée. ("Bicybec") which were not included in the 1996 results. In addition, $42.0 million was attributable to the inclusion of results of Davis & Henderson, including Check Gallery Inc., ("D+H") for a full year in 1997 compared to six months in 1996 and $14.9 million was attributable to inclusion of results of MDC Communications (Asia-Pacific) Pty Ltd. ("MDC(AP)") for a full year in 1997 compared to four months in 1996. The remaining $35.9 million increase was attributable to the internal growth of the division's existing operations.

Communications and Marketing Services Division

Sales of the Communications and Marketing Services division totalled $66.8 million in 1997, $20.7 million or 45% higher than the $46.1 million in 1996, and accounted for 17% of the increase in sales of the Company. Of the increase, $11.8 million was attributable to the acquisitions of FRB Communications Inc.("FRB") and News Canada in 1997. The remaining $8.9 million in sales growth was broadly based across the division with virtually all operating units posting increased sales.

GROSS PROFIT

Gross profit was $123.2 million in 1997, up $60.6 million or 97% over the $62.6 million achieved in 1996. Gross margin increased from 39.6% in 1996 to 44.0% in 1997

as a result of improved margins in both the Security and Specialty Products and Communications and Marketing Services divisions.

Gross profit was $92.3 million in 1997, up $53.4 million or 137% over the $38.9 million in 1996. Of this increase, $5.4 million was attributable to the acquisitions of Image and Bicybec, $18.7 million was attributable to the inclusion of results of D+H for a full year in 1997 compared to six months in 1996 and $6.4 million was attributable to inclusion of results of MDC(AP) for a full year in 1997 compared to four months in 1996. The remaining $22.9 million increase was attributable to internal sales growth and improvements in production efficiency at the division's operations.

Gross margin of the division was 47.3% in 1997, up from the 41.8% achieved in 1996, due to a change in product mix as well as improved production efficiencies.

Gross profit was $20.3 million in 1997, reflecting an increase of $7.2 million or 55% from the $13.1 million in 1996. Of the increase, $2.7 million was attributable to the acquisitions of News Canada and FRB with the remaining $4.5 million attributed to a general increase in sales and gross margins throughout the division.

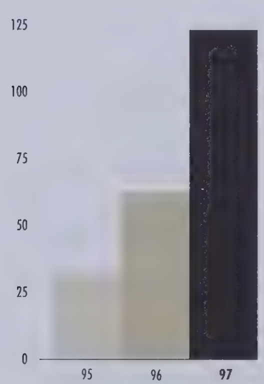
Gross margin of the division was 30.4% in 1997, up from the 28.4% achieved in 1996. Management attributes this improvement to better management at the individual operating units resulting in increased production efficiencies.

OPERATING EXPENSES

Operating expenses totalled $87.5 million in 1997 representing an increase of $47.1 million or 117% over the $40.4 million in 1996. Of this increase, $5.6 million related to acquisitions and $15.5 million was attributable to the inclusion of results of D+H and MDC(AP) for a full year in 1997 compared to six and four months respectively in 1996. The remaining $26.0 million related to the increase in revenues, with costs totalling $20.0 million at the Security and Specialty Products division, $2.2 million related to the Communications and Marketing Services division, and $3.8 million in increased corporate and other costs. The increase in corporate and other costs were the result of increased costs at A.E. McKenzie of $0.7 million, $1.2 million attributable to foreign exchange gains realized in 1996 and not repeated in 1997 and $1.9 million related to increased corporate expenditures.

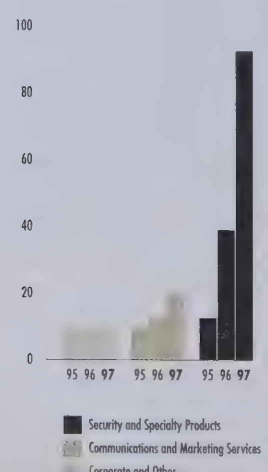
Gross Profit

(in millions of dollars)



Gross Profit by Business Segment

(in millions of dollars)



Operating expenses increased from 25.5% of sales in 1996 to 31.3% of sales in 1997. The increase in operating expenses relates primarily to a change in product mix and the inclusion of results of D+H for a full year in 1997.

Security and Specialty Products Division

Operating expenses totalled $61.3 million in 1997, up $39.4 million or 180% over the $21.9 million in 1996. Of this increase, $3.9 million related to the acquisitions of Image and Bicybec, $10.5 million was attributable to the inclusion of results of D+H for a full year in 1997 compared to six months in 1996 and $5.0 million was attributable to the inclusion of results of MDC(AP) for a full year in 1997 compared to four months in 1996. The remaining $20.0 million increase was attributable to increased expenses related to the revenue growth of the operations.

Operating expenses increased from 23.5% of sales in 1996 to 31.4% of sales in 1997. The increase was largely a result of the larger infrastructure required in the D+H and MDC(AP) operations to service their customer base.

Communications and Marketing Services Division

Operating expenses totalled $11.4 million in 1997, representing an increase of $3.9 million or 52% over the $7.5 million in 1996. Of the increase, $1.7 million was attributable to the acquisitions of News Canada and FRB with the remaining $2.2 million increase attributable to additional expenses related to the growth in sales experienced across the division in 1997.

Operating expenses increased marginally from 16.3% of sales in 1996 to 17.1% of sales in 1997, with the increase more than offset by the 2% increase in gross margin.

OPERATING INCOME

Operating income was $35.7 million in 1997, reflecting an increase of $13.5 million or 61% over the $22.2 million in 1996. The increase can be attributed to increases of $14.0 million from the Security and Specialty Products division and $3.3 million from the Communications and Marketing Services division, partially offset by a decline of $3.8 million in Corporate and other.

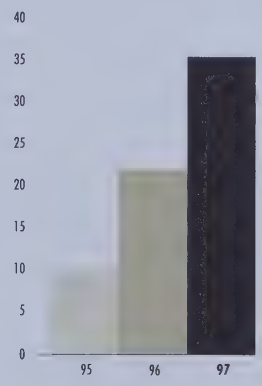
Operating income decreased slightly from 14.0% of sales in 1996 to 12.8% of sales in 1997.

Security and Specialty Products Division

Operating income was $31.0 million in 1997, up $14.0 million or 82% over the $17.0 million in 1996. Of this increase, $1.4 million related to the acquisitions of Image and Bicybec, $9.6 million was attributable to the inclusion

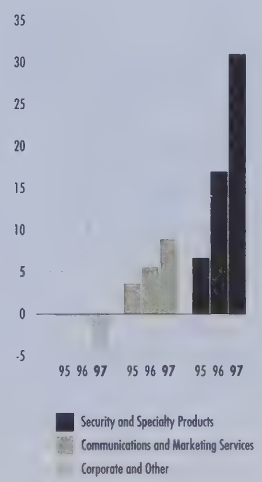
Operating Income

(in millions of dollars)



Operating Income by Business Segment

(in millions of dollars)



of results of D+H and MDC(AP) for a full year in 1997 compared to six and four months respectively in 1996. The remaining $3.0 million increase was attributable to internal growth experienced at existing operations.

Operating income decreased from 18.3% of sales in 1996 to 15.9% of sales in 1997.

Communications and Marketing Services Division

Operating income was $8.9 million in 1997, an increase of $3.3 million or 59% from the $5.6 million in 1996. Of the increase, $1.0 million was attributable to the acquisitions of News Canada and FRB with the remaining $2.3 million increase attributable to the increase in sales and improved gross margins experienced throughout the division.

Operating income increased from 12.1% of sales in 1996 to 13.3% of sales in 1997.

AMORTIZATION

Amortization was $14.8 million in 1997, $7.0 million or 90% higher than the $7.8 million in 1996. Amortization increased from 4.9% of sales in 1996 to 5.3% of sales in 1997. This increase was primarily due to the increased capital asset base utilized by the Security and Specialty Products division.

Security and Specialty Products Division

Amortization was $12.3 million in 1997, up $6.3 million or 105% over the $6.0 million in 1996. Of this increase, $0.3 million related to the acquisitions of Image and Bicybec, $4.1 million was attributable to the inclusion of results of D+H and MDC(AP) for a full year in 1997 compared to six and four months respectively in 1996. The remaining $1.9 million increase was a result of increased amortization related to the capital investment made throughout the division in 1997 and previous years.

Communications and Marketing Services Division

Amortization was $1.5 million in 1997 representing an increase of $0.4 million or 36% from the $1.1 million in 1996.

MINORITY INTERESTS

Security and Specialty Products Division

Minority interest of $0.4 million in 1997 related to the increase in profitability of Check Gallery Inc. There was no minority interest in this division in 1996.

Communications and Marketing Services Division

Minority interest was $2.5 million in 1997 representing an increase of $1.2 million or 92% over the $1.3 million in 1996. Of this increase, $0.4 million related to the acquisition of FRB with the remaining $0.8 million related to the increased operating income achieved by the division in 1997.

GAIN ON SALE OF CAPITAL ASSETS

In 1996 a gain on sale of capital assets in the amount of $0.6 million was recorded in the Security and Specialty Products division resulting from the sale of a printing press. There were no gains on the sale of capital assets in 1997.

EARNINGS BEFORE INTEREST AND INCOME TAXES ("EBIT")

EBIT was $18.0 million in 1997, $4.3 million or 31% higher than the $13.7 million reported in 1996. This resulted from increases of $6.7 million from the Security and Specialty Products division and a $1.6 million increase from the Communications and Marketing Services division. These gains were partially offset by a decline of $4.0 million in Corporate and other.

Security and Specialty Products Division

EBIT was $18.3 million in 1997, up $6.7 million or 58% over the $11.6 million earned in 1996. This increase was attributable to acquisitions in 1997, the inclusion of results of D+H and MDC(AP) for a full year in 1997 compared to six and four months respectively in 1996, and internal growth from the remaining units in the division.

Communications and Marketing Services Division

EBIT was $4.9 million in 1997, up $1.6 million or 48% from the $3.3 million earned in 1996. Of this increase, $0.4 million was attributable to acquisitions with the

remaining $1.2 million represented by improved performance attributed to increased sales and improved operating income margins which were broadly based amongst the companies within the division.

INTEREST EXPENSE

Interest expense was $6.3 million in 1997, representing a modest increase of $0.1 million or 2% over the $6.2 million in 1996. In 1997, the Company was able to minimize interest expense from the effective use of financial instruments.

INCOME TAXES

Income taxes in 1997 were $3.9 million compared to $2.8 million in 1996, representing an increase of 39%. This increase is directly attributable to the increase in earnings in 1997. The Company continued to utilize the benefits of previously unrecorded tax losses to reduce its tax provision below statutory rates.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations was $7.8 million in 1997, reflecting an increase of $3.1 million or 66% from the $4.7 million earned in 1996, as a result of all of the foregoing items discussed.

Income from continuing operations decreased marginally from 3.0% of sales in 1996 to 2.8% of sales in 1997.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS

In December 1997, the Company adopted a formal plan to divest its Regal Greetings and Gifts and Prime de Luxe ("Regal") operations. The loss from discontinued operations in 1997 was $28.6 million compared to income of $2.3 million in 1996. Of the decrease, $16.9 million related to the restructuring announced in March 1997 and additional costs required to complete the divestiture process currently underway. Approximately $7.0 million related to the extraordinary impact of the Canadian postal strike during the peak Christmas selling period. The remaining decrease was a result of increased catalogue and representative recruitment costs, which are expected to benefit future periods, combined with a reduction in operating margins.

NET INCOME (LOSS) FOR THE YEAR

Net loss for the year was $20.8 million in 1997, compared with the $7.0 million net income reported in 1996, as a result of all of the foregoing items discussed.

LIQUIDITY & CAPITAL RESOURCES

Working Capital

Working capital was $30.7 million at the end of 1997, reflecting a decrease of $31.2 million or 50% over the $61.9 million in working capital at the end of 1996. The decrease was largely attributable to deployment in 1997 of cash and short-term investments existing at December 1996. These funds were used for capital expenditure programs and to fund acquisitions.

In December 1997, the Company increased its revolving credit facility from US$50 million to US$75 million. The Company had utilized approximately Cdn. $14.4 million of this facility in the form of cash and letters of credit at December 31, 1997. As at December 31, 1997, the Company had approximately Cdn. $104.4 million in unrestricted cash and available bank credit facilities to support its operating and acquisition requirements.

Long-term Indebtedness

Long-term indebtedness (including long-term indebtedness and current portion of long-term indebtedness) was $210.1 million at December 31, 1997, representing a net increase of $16.2 million over the $193.9 million in long-term indebtedness at December 31, 1996.

The following matrix summarizes the Company's exposure to interest and exchange rate risks on long-term indebtedness at December 31, 1997 taking into account the termination, subsequent to year end, of cross currency interest rate swap agreements with respect to the Senior Subordinated Debentures:

Currency (in thousands)	Cdn. $	US$	U.K. £	Aus. $
Fixed interest rate indebtedness	15,056	125,000	1,401	719
Floating interest rate indebtedness	11,855	—	—	—

Long-term Indebtedness to Shareholders' Equity

With $117.2 million of shareholders' equity and $210.1 million of long-term indebtedness, the Company's long-term indebtedness to shareholders' equity ratio has declined marginally from 1.83 to 1 at December 31, 1996 to 1.79 to 1 at December 31, 1997.

Repayment of Long-term Indebtedness

Approximately $27.2 million of long-term indebtedness is due within the next five years and the majority is due December 1, 2006. Management believes that this indebtedness will be repaid from cash flow from operations.

Cash Flow from Operations

Cash flow from operations, before changes in non-cash working capital, was $22.4 million in 1997, representing an increase of $9.8 million or 78% over the $12.6 million generated in 1996. The funds were used to fund the increased investment in working capital and capital expenditures made by the Company in 1997.

RISKS AND UNCERTAINTIES

Security and Specialty Products Division

Customer Concentration

In 1997, the Security and Specialty Products division contributed approximately 70% of the Company's consolidated sales. The division currently derives a significant portion of its revenue from its cheque and postage stamp printing businesses, both of which have a significant concentration of customers.

A significant portion of the division's cheque printing revenue is derived from its sales to a few financial institutions pursuant to agreements. Since cheques in Canada are sold through financial institutions and there is currently no direct-to-consumer cheque market as in the United States, the loss of, or material reduction of volume under, these contracts would have a material adverse effect on the results of the division. Although the Company believes that these contracts will continue to operate throughout their entire term and will be extended in the ordinary course, there can be no assurance that extensions will be exercised or that the contracts will be renewed at their scheduled expiration.

The postage stamp business derives a significant portion of its revenues from three government contracts: a three-year postage stamp printing contract with the United States Postal Service ("USPS") which expires on March 1, 2001 (with the USPS having two one-year extension options), a three-year printing contract with Canada Post which expires on December 31, 1998 (with Canada Post having a one-year extension option) and a three-year postage stamp printing contract with the Royal Mail expiring on October 31, 1998. Contracts are generally awarded in a competitive bidding process with the primary evaluation criteria being quality, customer service, production capability, and price. The loss of these contracts could have an adverse effect on the sales and earnings of the division. Although there can be no guarantee that the division will be successful in retaining these contracts, management's belief is that a focus on meeting the ongoing quality, reliability, and service requirements of its customers will allow the division to retain these contracts and potentially increase annual production allocations. In addition, it is expected that the significant capital investment made to acquire state-of-the-art equipment and technology will give the division production cost efficiencies over its competitors.

Communications and Marketing Services Division

Management's ongoing strategy to acquire ownership stakes in well-managed businesses has allowed the division to grow into a broad portfolio of 13 companies. The resulting

diversity has allowed the division to minimize the effects that might arise from the loss of any one client or manager.

Management succession is very important to the on-going results of the division. Management has focused on mitigating the risks with respect to these successions as well as the promotion of various growth initiatives.

Discontinued Operations (Regal)

The Company has announced a formal plan to divest its Regal operations; however, the Company retains the risks and uncertainties of Regal until the ultimate divestiture process has been completed.

Postal Interruption

In response to the potential threat of interrupted postal delivery service, Regal has developed alternate means of receiving incoming orders and shipping parcels, including the use of toll-free order telephone lines, fax orders and independent courier services. Regal's reliance on postal delivery service has been further reduced as a result of its ability to deliver merchandise to its catalogue customers through its service centres. On an annual basis, therefore, approximately 71% of Regal's merchandise is delivered using means other than postal delivery service. However, a prolonged interruption in Canada's postal service during the peak selling season (fourth quarter), such as experienced in 1997, would have a material adverse impact on Regal's results.

Foreign Suppliers

Approximately 68% of Regal's merchandise offered through its core catalogues is purchased from foreign independent trading agents selling products for manufacturers located in Asian countries. Therefore, Regal is exposed to the customary risks of doing business abroad, including fluctuations in the value of currencies, import duties, quotas, work stoppages, and political instability.
To date, these factors have not had a material adverse effect on Regal's operations.

Seasonality

A significant portion of the sales for Regal is usually earned in the peak selling period leading to Christmas. A major postal interruption or supplier disruption affecting this selling period potentially could have an adverse impact on Regal's results.

YEAR 2000 ISSUES

The Year 2000 issues exist because many computer programs use two digits rather than four digits to identify the year. As a result, on or before January 1, 2000, any systems that have date-sensitive software may interpret the year as 1900 instead of 2000. For systems that process data or are used to run operations, this could result in either the generation of information that is materially inaccurate or system failures.

The Company recognizes the potential for serious problems of this nature and has developed a plan of action. A task force comprised of head office and divisional employees has been established with a goal of ensuring full Year 2000 compliance by the end of 1998. In the normal course of business, individual business units are upgrading existing networks and point of sale equipment and software. The company has ensured that all such new systems are Year 2000 compliant. The total incremental cost of ensuring Year 2000 compliance will be minimal and will be expensed when incurred.

OUTLOOK

On January 13, 1998, the Company announced a new strategic plan intended to focus the Company on its core Security and Specialty Products division, divest Regal, and build its Communications and Marketing Services division to critical mass. These new strategic initiatives will restructure the Company with the intention of improving value for our shareholders and enhancing the predictability of the Company's operations.

The Security and Specialty Products division is expected to continue to grow through gains in market share of existing products and from diversification into other security products and services. Our product diversification efforts over the past year have resulted in the creation of two new business units: the MDC Card Services group to capitalize on the rapidly expanding plastic and smart card market and the newly created Business & Technology Services group to target the dynamic outsourcing market and further penetrate the financial services industry.

The Communications and Marketing Services division is expected to continue to grow both its sales and operating profits both through internal growth and from strategic acquisitions. The Company will explore ways to crystallize the value of the division, possibly by way of an Initial Public Offering within the medium term.

During 1998, the Company, will continue to seek and evaluate acquisition opportunities. We will continue to maintain strict adherence to our fundamental acquisition criteria of niche companies or market leaders with good management, stable sales and earnings streams, low capital expenditure requirements, and strong growth prospects.

With a clear and defined corporate strategic plan, experienced and focused management in place at all levels of the Company combined with available capital resources, management anticipates continued growth in earnings and shareholder value.

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal control which is designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody, Chartered Accountants, are appointed by the shareholders and have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

Annually, the Board of Directors appoints an Audit Committee composed of at least three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board and makes recommendations with respect to the appointment of the Company's auditors. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company and its affiliates.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for approving the consolidated financial statements for presentation to shareholders.

Miles S. Nadal

Miles S. Nadal
PRESIDENT &
CHIEF EXECUTIVE OFFICER

W. Campbell

Walter Campbell
SENIOR VICE-PRESIDENT, FINANCE &
CORPORATE SECRETARY

MARCH 14, 1998

TO THE SHAREHOLDERS OF MDC COMMUNICATIONS CORPORATION

We have audited the consolidated balance sheets of MDC Communications Corporation as at December 31, 1997, 1996 and 1995 and the consolidated statements of retained earnings, operations and changes in financial position for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years then ended in accordance with generally accepted accounting principles in Canada.

BDO Dunwoody

CHARTERED ACCOUNTANTS
MARKHAM, ONTARIO
FEBRUARY 17, 1998

Consolidated Balance Sheets

As at December 31
(in thousands of Canadian dollars)

	1997	1996	1995
ASSETS			
Current			
Cash and short-term investments	**$ 10,793**	$ 41,937	$ 11,599
Accounts receivable *(note 2)*	**55,275**	35,620	17,106
Inventory	**43,332**	39,391	28,206
Prepaid expenses and sundry	**13,961**	9,020	3,544
	123,361	125,968	60,455
Capital and other assets *(note 3)*	**125,700**	97,200	43,581
Goodwill *(note 4)*	**168,448**	138,767	80,092
	$417,509	$361,935	$184,128
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness *(note 5)*	**$ 12,077**	$ 676	$ 14,860
Accounts payable and accrued liabilities	**69,910**	57,446	27,182
Deferred revenue	**6,169**	2,957	1,093
Current portion of long-term indebtedness *(note 5)*	**4,512**	2,996	9,126
	92,668	64,075	52,261
Long-term indebtedness *(note 5)*	**205,634**	190,907	56,748
	298,302	254,982	109,009
Minority interest	**2,039**	1,177	1,141
Shareholders' equity			
Share capital *(note 6)*	**84,180**	86,219	61,460
Other paid in capital *(note 7)*	**37,802**	1,943	1,943
Retained earnings	**(4,814)**	17,614	10,575
	117,168	105,776	73,978
	$417,509	$361,935	$184,128

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD:

Miles S. Nadal

Miles S. Nadal
DIRECTOR

Peter M. Lewis
DIRECTOR

Consolidated Statements of Operations

For the Years Ended December 31 (in thousands of Canadian dollars, except per share amounts)	1997	1996	1995
Sales	$ 280,020	$ 158,211	$ 97,796
Cost of sales	156,823	95,628	65,421
Gross profit	123,197	62,583	32,375
Operating expenses	87,551	40,395	22,524
Operating income before other charges	35,646	22,188	9,851
Other charges (income)			
Amortization	14,784	7,795	3,146
Gain on sale of capital assets	—	(615)	—
Interest	6,258	6,177	2,138
Minority interests *(note 8)*	2,870	1,258	828
	23,912	14,615	6,112
Income before income taxes	11,734	7,573	3,739
Income taxes *(note 9)*	3,953	2,842	1,542
Income from continuing operations	7,781	4,731	2,197
Income (loss) from discontinued operations *(note 10)*	(28,618)	2,308	613
Net income (loss) for the year	$ (20,837)	$ 7,039	$ 2,810
Earnings per share *(note 11)*			
Continuing operations			
Basic	$ 0.50	$ 0.41	$ 0.21
Fully diluted	$ 0.49	$ 0.40	$ 0.21
Reported			
Basic	$ (1.82)	$ 0.61	$ 0.27
Fully diluted	$ (1.82)	$ 0.58	$ 0.27

Consolidated Statements of Retained Earnings

For the Years Ended December 31 (in thousands of Canadian dollars)	1997	1996	1995
Retained earnings, beginning of year	$ 17,614	$ 10,575	$ 7,765
Net income (loss) for the year	(20,837)	7,039	2,810
	(3,223)	17,614	10,575
Allocation to other paid in capital, net of income tax recovery of $1,268	(1,591)	—	—
Retained earnings, end of year	$ (4,814)	$ 17,614	$ 10,575

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31 (in thousands of Canadian dollars)	1997	1996	1995
Cash provided by (used in)			
Operating activities			
Income from continuing operations	$ 7,781	$ 4,731	$ 2,197
Items not involving cash			
Amortization	14,784	7,795	3,146
Deferred income taxes	(1,218)	462	822
Recovery of other liabilities	—	—	(2,318)
Gain on sale of capital assets	—	(615)	—
Other	1,085	243	126
	22,432	12,616	3,973
Changes in non-cash operating accounts	(20,338)	(13,260)	(10,607)
	2,094	(644)	(6,634)
Income (loss) from discontinued operations, net of non-cash items	(12,039)	4,694	3,618
	(9,945)	4,050	(3,016)
Investing activities			
Investments and acquisitions, net	(35,681)	(79,915)	(12,197)
Capital and other assets, net	(35,363)	(32,194)	(22,298)
	(71,044)	(112,109)	(34,495)
Financing activities			
Proceeds on issuance of long-term indebtedness	—	182,172	28,899
Repayment of long-term indebtedness	(6,397)	(54,350)	(8,222)
Net proceeds on issuance of convertible debentures	47,350	—	—
Share capital	(2,509)	24,759	6,367
	38,444	152,581	27,044
Increase (decrease) in cash and equivalents during the year	(42,545)	44,522	(10,467)
Cash and equivalents (bank indebtedness), beginning of year	41,261	(3,261)	7,206
Cash and equivalents (bank indebtedness), end of year	$ (1,284)	$ 41,261	$ (3,261)
Represented by			
Cash and short-term investments	$ 10,793	$ 41,937	$ 11,599
Bank indebtedness	(12,077)	(676)	(14,860)
	$ (1,284)	$ 41,261	$ (3,261)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Principles of Consolidation

The financial statements include the accounts of the Company and any effectively controlled subsidiary companies consolidated using the purchase method. Where the Company does not exercise control, even though it may have a majority interest, the proportionate consolidation method is used. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

Revenue Recognition

Revenue is recognized using the percentage of completion method with respect to contracts having a specified time period for the performance of the service. Work in progress is estimated as the portion of revenue which has been earned but not billed. Customer billings in advance are recorded as deferred revenue. Potential losses, if any, on work in progress are provided for as soon as the possibility of a loss becomes apparent. All other revenue is recorded when the service is completed and/or the product is delivered.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided as follows:

- Buildings — 4–5% straight line
- Furniture and fixtures — 0–30% declining balance
- Machinery and equipment — 10–20% declining balance
- Leasehold improvements — Straight line over term of lease

Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible assets acquired. The Company amortizes goodwill on a straight-line basis over 40 years. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying businesses of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

Deferred Charges

The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Deferred Finance Costs

Deferred finance costs are amortized over the term of the related indebtedness.

[illegible]

The cost of pension benefits earned by employees covered under the defined benefit component of the pension plan is determined using the projected benefit method prorated on service. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members and the ages at which members will retire.

Deferred Income Taxes

Deferred income taxes result primarily from the difference between amortization recorded in the accounts and capital cost allowance claimed for income tax purposes.

Foreign Currency Translation

With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets which is translated at the historical rates of the related assets. The accounts of foreign subsidiaries' self-sustaining operations are translated using the rate of exchange in effect at the year end.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity. The amount of the cumulative translation adjustment was insignificant for all years presented and has not been separately disclosed.

The unrealized foreign exchange gains and losses relating to translation of long-term monetary assets and liabilities of a fixed term are deferred and amortized over the remaining life of the related term. All other foreign exchange gains and losses are included in net income or loss in the current period.

Financial Instruments

The Company's financial instruments consist of cash and short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term indebtedness and derivative financial instruments. Derivative financial instruments are used by the Company to manage its exposure to market risks relating to interest rates and foreign currency exchange rates.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and derivative financial instruments. The Company, in its normal course of business, is exposed to credit risk from its customers. The Company is exposed to credit loss in the event of non-performance by counterparties to the derivative financial instruments but does not anticipate non-performance by these counterparties. To reduce counterparty credit exposure, the Company deals only with large credit-worthy financial institutions, and limits credit exposure to each.

Fair Value

The carrying value of long-term indebtedness (see note 5) that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available. The carrying value of other financial instruments, cash and short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximate fair value due to their short-term maturities. The fair value of derivative financial instruments, foreign exchange contracts and swaps reflects the estimated amounts that the Company would receive or pay to settle the contracts at the reporting date.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

(in thousands of Canadian dollars, except per share amounts) December 31, 1997, 1996 and 1995

1. ACQUISITIONS

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

1995 Acquisitions:

Effective January 31, 1995, the Company acquired an additional 30% of Ambrose Carr Linton Carroll Inc. (ACLC) and an additional 20% of Studiotype Inc.

Effective February 8, 1995, the Company acquired an 80% interest in Mercury Graphics Corporation. Effective April 1, 1995, the Company acquired the remaining 20%.

Effective September 1, 1995, the Company acquired 80% of the assets of McManus & Associates Limited. These assets were combined with Jeffrey Elliott Communications Inc. (JECI). JECI subsequently changed its name to McManus Elliott Communications Inc.

1996 Acquisitions:

Effective January 1, 1996, the Company acquired an additional 11% of ACLC and an additional 10% of Studiotype Inc.

Effective May 10, 1996, the Company acquired 100% of The House of Questa.

Effective July 1, 1996, the Company acquired 100% of Davis & Henderson Ltd.

Effective August 30, 1996, the Company acquired certain assets of Rexam Security Products.

1997 Acquisitions:

Effective March 1, 1997, the Company acquired 100% of News Canada Inc.

Effective May 1, 1997, the Company acquired 100% of Image Checks Inc.

Effective June 1, 1997, the Company acquired FRB Communications and amalgamated it with LBJ Advertising Ltd. to form LBJ•FRB Communications Inc. The Company owns 50.1% of LBJ•FRB Communications Inc.

Effective October 15, 1997, the Company acquired 100% of Bicybec Ltée.

The assets acquired and consideration given are as follows:

As at December 31	**1997**	1996	1995
Net assets acquired, at fair value			
Assets, net of liabilities	**$ 4,662**	$ 18,657	$ 1,171
Minority interest	**—**	—	878
	4,662	18,657	293
Consideration			
Cash and promissory notes	**37,847**	78,264	6,661
Share capital — Class A shares	**—**	180	3,653
Other acquisition costs	**696**	2,068	265
Earn-out payments	**109**	—	1,596
	38,652	80,512	12,175
Goodwill	**$ 33,990**	$ 61,855	$ 11,882

2. ACCOUNTS RECEIVABLE

As at December 31	1997	1996	1995
Trade receivables	$ 51,028	$ 33,551	$ 15,524
Unbilled work in progress	4,247	2,069	1,582
	$ 55,275	$ 35,620	$ 17,106

3. CAPITAL AND OTHER ASSETS

As at December 31		1997		1996		1995
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(a) Capital Assets						
Land	$ 1,728	$ —	$ 1,666	$ —	$ 233	$ —
Buildings	8,709	570	8,653	429	2,845	177
Computer, furniture & fixtures	22,317	14,150	12,620	7,075	7,519	4,579
Machinery and equipment	83,139	24,109	75,802	23,922	39,860	13,742
Leasehold improvements	8,266	2,740	6,044	1,745	4,700	1,437
	124,159	41,569	104,785	33,171	55,157	19,935
(b) Other Assets						
Notes receivable	7,237	—	1,147	—	788	—
Deferred charges	15,902	3,483	12,315	3,366	3,393	265
Deferred finance costs	13,273	2,670	12,314	1,447	4,826	735
Deferred foreign exchange	11,050	463	3,562	—	—	—
Deferred income taxes	2,264	—	1,061	—	352	—
	49,726	6,616	30,399	4,813	9,359	1,000
	173,885	48,185	135,184	37,984	64,516	20,935
Cost less accumulated amortization		$ 125,700		$ 97,200		$ 43,581

Included in capital assets are assets under capital lease with a cost of $12,788 (1996 – $13,346, 1995 – $4,520) and accumulated amortization of $2,303 (1996 – $1,868, 1995 – $118).

Notes receivable include amounts owing from a company controlled by an officer of the Company, officers and directors of the Company and its subsidiaries.

4. GOODWILL

As at December 31	1997	1996	1995
Cost	$ 179,896	$ 145,906	$ 84,051
Accumulated amortization	11,448	7,139	3,959
	$ 168,448	$ 138,767	$ 80,092

5. LONG-TERM INDEBTEDNESS

As at December 31	1997	1996	1995
10.5% unsecured senior subordinated debentures due December 1, 2006, interest payable semi-annually (US$125,000)	$ 178,813	$ 171,325	$ —
7% convertible debentures, face value $50,000 interest payable semi-annually, due January 8, 2007	11,855	—	—
6% convertible subordinated notes, due March 2002	3,656	3,433	3,226
6.75% mortgage payable due January 2002	3,033	3,250	—
Notes payable	2,210	3,649	2,232
12.44% promissory note	—	—	15,000
Term loans	—	—	38,004
	199,567	181,657	58,462
Obligations under capital leases, interest at 8.69% to 11.67%	10,579	12,246	7,412
	210,146	193,903	65,874
Less: Current portion	4,512	2,996	9,126
	$ 205,634	$ 190,907	$ 56,748

The Company had entered into cross currency interest rate swap agreements which have converted the interest obligation on the senior subordinated debentures from US$ to Cdn. $ and from 10.5% to a variable interest rate. Subsequent to the year end, the cross currency interest rate swap agreements were terminated. The Company has also entered into interest rate swap agreements which have converted the interest obligation on the convertible subordinated debentures from 7% to a variable interest rate. At December 31, the variable rates of interest were approximately 8% and 6% respectively.

Bank indebtedness and term loans are secured by a registered general security agreement providing a first floating charge over all of the respective subsidiaries' assets, a general assignment of their book debts, and an assignment of applicable fire insurance policies.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's financial instruments policy, the net proceeds of the convertible debentures have been allocated $14,350 to long-term indebtedness and $33,000 to other paid in capital of shareholders' equity. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The convertible subordinated notes have been allocated $3,057 to long-term indebtedness and $1,943 to other paid in capital of shareholders' equity. Additional interest is capitalized annually to the indebtedness portion of the notes in order that the indebtedness portion will equal the face value at maturity.

The debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per $1 of debenture. The debentures will be redeemable by the Company from December 31, 1999 to December 30, 2001 provided the trading price of the Class A shares is not less than 125% of the conversion price. After December 30, 2001 the debentures are redeemable by the Company. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradeable Class A shares.

The notes are convertible at any time into Class A shares of the Company at the rate of 400 Class A shares for each $1 of notes. The notes are secured by a floating charge on all the assets of the Company and rank pari passu with the senior subordinated debentures and subordinate to all other bank and long-term indebtedness. Interest is paid quarterly.

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 1997 is as follows:

1998	—	$ 4,512
1999	—	5,184
2000	—	7,480
2001	—	5,279
2002	—	4,766
thereafter	—	182,925

Total interest on long-term indebtedness was $13,364 (1996 – $7,938, 1995 – $4,516). Of this amount approximately $364 (1996 – $436, 1995 – $620) has been capitalized.

The Company's estimate of the fair value of its long-term indebtedness is as follows:

As at December 31	**1997**	1996	1995
Maturing within five years	**$ 31,000**	$ 23,000	$ 66,000
Maturing after five years	**190,000**	172,000	—
	$ 221,000	$ 195,000	$ 66,000

6. SHARE CAPITAL

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

Changes to the Company's issued and outstanding share capital are as follows:

	Shares	Amount
Class A		
Balance, December 31, 1994	9,603,611	$ 57,348
Conversion of convertible securities	25	—
Shares issued on acquisitions	252,068	3,653
Share options exercised	63,548	257
Balance, December 31, 1995	9,919,252	61,258
Shares issued by prospectus	1,916,667	25,875
Shares issued on acquisitions	17,967	180
Shares acquired and cancelled pursuant to a normal course issuer bid	(24,500)	(274)
Share options exercised	72,100	337
Share issue costs, net of income tax recovery of $1,200	—	(1,359)
Balance, December 31, 1996	11,901,486	86,017
Shares acquired and cancelled pursuant to a normal course issuer bid	(331,700)	(3,287)
Share options exercised	216,600	778
Conversion of convertible securities	37	—
Income tax recovery of shares issue costs	—	470
Balance, December 31, 1997	11,786,423	$ 83,978

	Shares	Amount
Class B		
Balance, December 31, 1994	451,791	$ 202
Conversion to Class A shares	(25)	—
Balance, December 31, 1995 and December 31, 1996	451,766	202
Conversion to Class A Shares	(37)	—
Balance, December 31, 1997	451,729	$ 202
Total Share Capital		
1997		$ 84,180
1996		$ 86,219
1995		$ 61,460

The Company has granted options under the terms of its employee share option incentive plan to purchase 2,003,555 Class A shares at prices ranging from $6.00 to $20.40 per share. These options expire between 1998 and 2002.

The Company has reserved a total of 4,863,276 Class A shares in order to meet its obligations under various conversion rights, warrants and employee share options.

7. OTHER PAID IN CAPITAL

As at December 31	**1997**	1996	1995
Balance, beginning of year	**$ 1,943**	$ 1,943	$ —
Equity component of 6% convertible notes	**—**	—	1,943
Equity component of 7% convertible debentures	**33,000**	—	—
Allocation from retained earnings	**2,859**	—	—
Balance, end of year	**$ 37,802**	$ 1,943	$ 1,943

8. MINORITY INTERESTS

These amounts represent remuneration paid to shareholder-managers of the subsidiary companies pursuant to their respective shareholder agreements and adjustments to the minority interest position.

9. INCOME TAXES

The Company's provision for income taxes is comprised as follows:

As at December 31	**1997**	1996	1995
Current	**$ 7,041**	$ 3,331	$ 720
Deferred	**(1,218)**	462	822
Recovery of taxes due to utilization of losses and unrecorded deferred tax debits of prior years	**(1,870)**	(951)	—
	$ 3,953	$ 2,842	$ 1,542

Reconciliation to statutory rates is as follows:

As at December 31	1997	1996	1995
Canadian federal and provincial tax rate of 44.3%	$ 5,198	$ 3,355	$ 1,656
Increase in taxes resulting from:			
Permanent differences	1,392	911	74
Losses not recognized for income tax purposes	—	—	328
Recovery of taxes due to realization of losses and unrecorded deferred tax debits of prior years	(2,637)	(1,424)	(516)
Total provision	$ 3,953	$ 2,842	$ 1,542

As at December 31, 1997, the consolidated group had approximately $19,000 of non-capital losses which may be carried forward and utilized to reduce future years' taxable income. The right to claim these losses expires as follows:

1999	—	$ 1,600
2000	—	4,600
2001	—	300
2002	—	2,200
2003	—	9,800
2004	—	500

As at December 31, 1997 the consolidated group had recorded items in the accounts of approximately $17,000 which had not been claimed for income tax purposes.

The potential income tax benefits arising from the above items have not been recorded in these consolidated financial statements.

10. INCOME (LOSS) FROM DISCONTINUED OPERATIONS

In December 1997, the Company adopted a formal plan to divest its Regal Greetings & Gifts and Primes de Luxe ("Regal") operations. The divestiture process is anticipated to take several months to complete. Accordingly, the results of Regal have been reported as discontinued operations and previously reported financial statements have been reclassified. Interest has been allocated to discontinued operations. The operating results including estimated losses and costs associated with disposal are as follows:

For the Years Ended December 31	1997	1996	1995
Sales	$ 70,794	$ 74,922	$ 74,986
Income (loss) before income taxes	(25,858)	4,073	2,199
Income taxes (recovery)	(2,240)	1,765	1,586
	(23,618)	2,308	613
Estimated losses and costs to date of disposal	(5,000)	—	—
	$ (28,618)	$ 2,308	$ 613

11. EARNINGS PER SHARE

Earnings per share are calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year. Earnings used in the calculation of basic earnings per share for the year are net income (loss) for the year reduced by the allocation to other paid in capital, net of applicable income taxes.

12. PENSION COSTS AND OBLIGATIONS

The estimated market value of assets in the defined benefit component of the pension plans was $10,259 at December 31, 1997 (1996 – $8,903). These assets are available to meet the estimated present value of accrued pension obligations of $10,037 at December 31, 1997 (1996 – $8,174).

13. COMMITMENTS

The Company has leased real estate and equipment at the following approximate annual base rental:

1998	—	$ 8,187
1999	—	6,980
2000	—	5,970
2001	—	5,011
2002	—	4,094
Thereafter	—	11,993

The Company, under agreements with respect to the terms of acquisitions, may be required to acquire part or all of minority shareholdings.

As at December 31, 1997, the Company is committed under various forward exchange contracts to purchase US$6,500 for Cdn. $8,828.

On December 22, 1997, the Company entered into a cash merger agreement with Artistic Greetings Incorporated under which upon approval of shareholders of Artistic, the Company shall acquire all of the 5.8 million outstanding common shares of Artistic for cash consideration of US$5.70 per share for a total purchase price of approximately US$33 million. A condition to the merger is that Artistic will complete the disposition of its personalized products business and certain assets and liabilities related thereto under the terms of a separate agreement for cash consideration of US$9 million to a newly formed company, Artistic Direct Incorporated.

14. CONTINGENT LIABILITIES

As at December 31, 1997, there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

15. RELATED PARTY TRANSACTIONS

The Company paid fees totalling $1,000 (1996 – $1,000, 1995 – $500) to a company controlled by an officer of the Company in connection with capital transactions. In addition, the Company has a non-interest bearing note receivable of $3,000 (1996 – $nil, 1995 – $nil) from the same company.

16. SEGMENTED INFORMATION

The Company's continuing operations are in primarily two business segments — Security and Specialty Products and Communications and Marketing Services. Security and Specialty Products operations include security products and services in four core segments: personalized transaction products, stamps, tickets, and business & technology services. The Communications and Marketing Services division includes advertising, public and investor relations, coporate image and design, sales promotion and event marketing, and electronic publishing and information services.

For the Year Ended December 31, 1997	**Security & Specialty Products**	**Communications & Marketing Services**	**Corporate & Other**	**Total**
Earnings				
Sales	$ 195,318	$ 66,763	$ 17,939	$ 280,020
Operating income	$ 31,012	$ 8,865	$ (4,231)	$ 35,646
Amortization	12,305	1,533	946	14,784
Minority interests	384	2,486	—	2,870
Earnings, before interest and income taxes	$ 18,323	$ 4,846	$ (5,177)	17,992
Interest				6,258
Earnings, before income taxes				11,734
Income taxes				3,953
Net earnings from continuing operations				$ 7,781
Assets				
Total assets	$ 239,703	$ 52,243	$ 125,563	$ 417,509
Expenditures on capital assets	$ 16,429	$ 1,130	$ 2,168	$ 19,727

For the Year Ended December 31, 1996	Security & Specialty Products	Communications & Marketing Services	Corporate & Other	Total
Earnings				
Sales	$ 93,015	$ 46,067	$ 19,129	$ 158,211
Operating income	$ 17,008	$ 5,621	$ (441)	$ 22,188
Amortization	5,966	1,098	731	7,795
Minority interests	—	1,258	—	1,258
Gain on sale of capital assets	(579)	(36)	—	(615)
Earnings, before interest and income taxes	$ 11,621	$ 3,301	$ (1,172)	13,750
Interest				6,177
Earnings, before income taxes				7,573
Income taxes				2,842
Net earnings from continuing operations				$ 4,731
Assets				
Total assets	$ 169,447	$ 35,709	$ 156,779	$ 361,935
Expenditures on capital assets	$ 7,626	$ 762	$ 5,965	$ 14,353

For the Year Ended December 31, 1995	Security & Specialty Products	Communications & Marketing Services	Corporate & Other	Total
Earnings				
Sales	$ 39,325	$ 39,076	$ 19,395	$ 97,796
Operating income	$ 6,695	$ 3,605	$ (449)	$ 9,851
Amortization	1,444	1,164	538	3,146
Minority interests	—	828	—	828
Earnings, before interest and income taxes	$ 5,251	$ 1,613	$ (987)	5,877
Interest				2,138
Earnings, before income taxes				3,739
Income taxes				1,542
Net earnings from continuing operations				$ 2,197
Assets				
Total assets	$ 47,077	$ 31,189	$ 105,862	$ 184,128
Expenditures on capital assets	$ 13,208	$ 466	$ 2,088	$ 15,762

Eight-Year Financial Summary

(Dollars and shares in thousands except per share amounts)

	1997	1996	1995	1994	1993	1992	1991	1990
Operations								
Sales	**$ 280,020**	158,211	97,796	49,605	32,061	27,296	21,188	23,782
Cost of sales	**156,823**	95,628	65,421	34,789	22,495	19,617	15,631	17,155
Gross profit	**123,197**	62,583	32,375	14,816	9,566	7,679	5,557	6,627
Operating expenses	**87,551**	40,395	22,524	9,755	5,910	4,571	4,484	4,612
Operating income	**35,646**	22,188	9,851	5,061	3,656	3,108	1,073	2,015
Amortization expense	**14,784**	7,795	3,146	1,461	895	690	739	819
Interest expense	**6,258**	6,177	2,138	485	626	879	1,057	1,182
Minority interests	**2,870**	1,258	828	850	299	479	531	789
Loss (gain) on sale of capital assets	**—**	(615)	—	3	(148)	(46)	—	7
Income (loss) before income taxes	**11,734**	7,573	3,739	2,262	1,984	1,106	(1,254)	(782)
Income taxes	**3,953**	2,842	1,542	970	113	27	(161)	106
Net income (loss) before undernoted item	**7,781**	4,731	2,197	1,292	1,871	1,079	(1,093)	(888)
Non-recurring charges/ discontinued operations	**28,618**	(2,308)	(613)	(3,016)	—	—	467	5,302
Net income (loss)	**$ (20,837)**	7,039	2,810	4,308	1,871	1,079	(1,560)	(6,190)
Earnings per share								
Continuing operations								
Basic	**$ 0.50**	0.41	0.21	0.14	0.25	0.23	(0.42)	(0.39)
Fully diluted	**0.49**	0.40	0.21	0.14	0.25	0.22	(0.42)	(0.39)
Reported								
Basic	**(1.82)**	0.61	0.27	0.46	0.25	0.23	(0.60)	(2.72)
Fully diluted	**(1.82)**	0.58	0.27	0.45	0.25	0.22	(0.60)	(2.72)
Cash flow from continuing operations	**$ 22,432**	12,616	3,973	2,686	1,552	2,011	(303)	(25)
Cash flow per share								
Basic	**1.69**	1.09	0.39	0.29	0.21	0.42	(0.12)	(0.01)
Fully diluted	**1.41**	0.99	0.37	0.29	0.21	0.40	(0.12)	(0.01)
Financial position								
Net working capital	**$ 30,693**	61,893	8,194	7,741	9,938	539	166	1,177
Investments	**—**	—	—	683	1,740	—	—	2
Capital and other assets	**125,700**	97,200	43,581	17,586	3,868	2,161	1,866	2,297
Goodwill	**168,448**	138,767	80,092	67,687	14,707	10,739	6,522	6,698
Total assets	**417,509**	361,935	184,128	124,049	40,076	23,311	13,815	15,527
Long-term indebtedness	**205,634**	190,907	56,748	26,645	5,844	5,948	6,477	8,518
Total indebtedness	**222,223**	194,579	80,734	32,178	8,080	8,602	8,794	10,442
Shareholders' equity	**117,168**	105,776	73,978	64,301	24,165	7,172	1,796	1,152
Other data								
Operating income as a % of sales	**% 12.7**	14.0	10.1	10.2	11.4	11.4	5.1	8.5
Income from continuing operations as a % of sales	**2.8**	3.0	2.2	2.6	5.8	4.0	(5.2)	(3.7)
Book value per share	**$ 7.97**	8.56	7.13	6.42	3.07	1.25	0.58	0.49
Current ratio	**1.33**	1.97	1.16	1.26	2.01	1.05	1.03	1.22
Long-term indebtedness to total capitalization	**% 60.6**	63.6	36.7	27.6	18.1	37.7	61.2	73.5
Total indebtedness to total capitalization	**65.5**	64.8	52.2	33.4	25.1	54.5	83.0	90.1
Total indebtedness to shareholders' equity	**1.90**	1.84	1.09	0.50	0.33	1.20	4.90	9.06
Class A and B shares outstanding at year end	**12,238**	12,353	10,371	10,019	7,883	5,742	3,085	2,342
Employees at year end	**2,920**	2,600	1,491	1,150	277	160	111	102

Three-Year Summary — Quarterly Consolidated Operating Results from Continuing Operations

	1st Quarter			2nd Quarter		
(Unaudited)	**1997**	1996	1995	**1997**	1996	1995
Sales	**$ 68,156**	32,801	28,213	**72,006**	31,225	24,904
Net income						
Net income	**2,182**	1,438	1,786	**1,921**	760	1,605
Net income per share						
Basic	**0.14**	0.14	0.17	**0.13**	0.06	0.16
Fully diluted	**0.14**	0.14	0.17	**0.12**	0.06	0.15
Cash flow						
Cash flow from operations	**5,492**	2,865	2,637	**5,665**	1,452	216
Cash flow per share						
Basic	**0.42**	0.28	0.26	**0.44**	0.12	0.02
Fully diluted	**0.35**	0.25	0.24	**0.36**	0.12	0.02

	3rd Quarter			4th Quarter		
(Unaudited)	**1997**	1996	1995	**1997**	1996	1995
Sales	**$ 62,062**	44,962	24,556	**77,796**	49,223	20,123
Net income						
Net income	**1,469**	803	175	**2,209**	1,730	(1,369)
Net income per share						
Basic	**0.08**	0.06	0.02	**0.15**	0.15	(0.14)
Fully diluted	**0.08**	0.06	0.02	**0.15**	0.14	(0.13)
Cash flow						
Cash flow from operations	**4,615**	3,706	1,196	**6,660**	4,593	(76)
Cash flow per share						
Basic	**0.36**	0.31	0.11	**0.47**	0.38	0.00
Fully diluted	**0.31**	0.29	0.11	**0.39**	0.33	0.00

	Annual Total		
(Unaudited)	**1997**	1996	1995
Sales	**$ 280,020**	158,211	97,796
Net income			
Net income	**7,781**	4,731	2,197
Net income per share			
Basic	**0.50**	0.41	0.21
Fully diluted	**0.49**	0.40	0.21
Cash flow			
Cash flow from operations	**22,432**	12,616	3,973
Cash flow per share			
Basic	**1.69**	1.09	0.39
Fully diluted	**1.41**	0.99	0.37

Class A Share Price

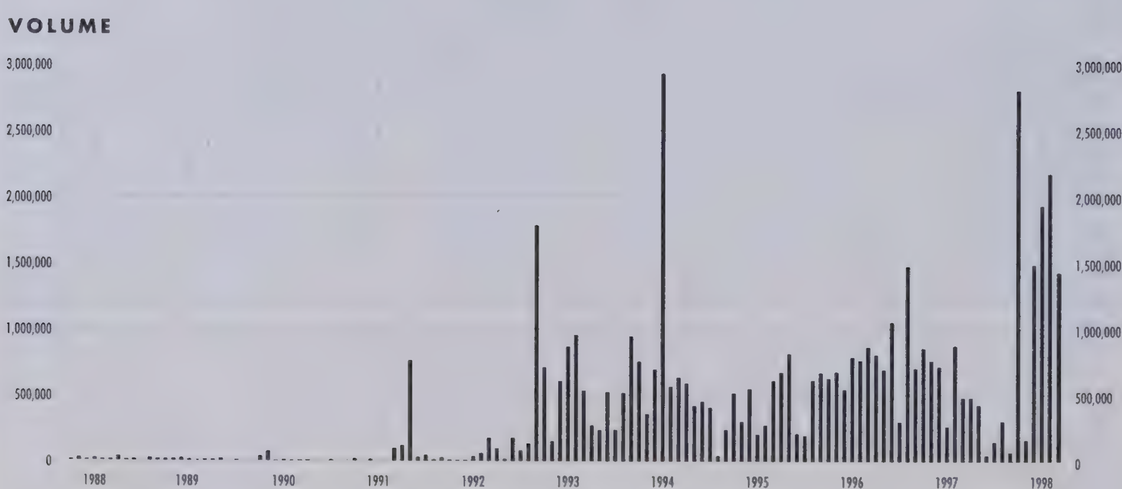
The Class A shares of MDC Communications Corporation are listed on the Toronto Stock Exchange and since April 1995 on the American Stock Exchange.

Quarterly market price data, adjusted for the one for six consolidation completed in May 1996, from 1992 to the first quarter of 1998 were as shown below:

	MDZ.A Toronto Stock Exchange			MDQ American Stock Exchange		
	Market price per share		Trading volume	Market price per share		Trading volume
Quarter ending	High	Low	# of shares	High	Low	# of shares
1998						
March 31	**$ 13.75**	**$ 8.50**	**5,525,864**	**$ 9.75**	**$ 6.25**	**1,863,900**
1997						
December 31	**$ 9.80**	**$ 7.60**	**4,452,805**	**$ 6.75**	**$ 5.25**	**197,700**
September 30	**$ 10.50**	**$ 8.60**	**521,483**	**$ 7.63**	**$ 6.38**	**142,700**
June 30	**$ 12.00**	**$ 10.00**	**954,972**	**$ 8.63**	**$ 7.13**	**85,900**
March 31	**$ 14.00**	**$ 11.50**	**1,619,243**	**$ 10.25**	**$ 8.63**	**181,200**
Total 1997	**$ 14.00**	**$ 7.60**	**7,548,503**	**$ 12.13**	**$ 6.38**	**607,500**
1996						
December 31	$ 16.50	$ 12.05	2,330,275	$ 12.13	$ 9.13	493,900
September 30	$ 14.50	$ 9.90	2,474,651	$ 10.75	$ 7.00	546,600
June 30	$ 13.80	$ 9.90	2,546,773	$ 10.13	$ 7.19	416,183
March 31	$ 12.30	$ 9.00	2,410,339	$ 9.75	$ 6.38	691,733
Total 1996	$ 16.50	$ 9.00	9,762,038	$ 12.13	$ 6.38	2,148,416
1995						
December 31	$ 13.20	$ 6.60	2,377,965	$ 9.38	$ 4.88	174,983
August 31	$ 16.80	$ 12.00	1,018,181	$ 12.38	$ 9.38	63,033
May 31	$ 17.40	$ 12.90	2,091,864	$ 12.75	$ 9.75	114,533
February 28	$ 15.90	$ 12.00	1,027,809			
Total 1995	$ 17.40	$ 6.60	6,515,819	$ 12.75	$ 4.88	352,550
1994						
November 30	$ 17.10	$ 14.10	1,056,306			
August 31	$ 18.00	$ 12.00	900,445			
May 31	$ 24.60	$ 15.60	1,641,711			
February 28	$ 23.40	$ 9.90	4,185,750			
Total 1994	$ 24.60	$ 9.90	7,784,212			
1993						
November 30	$ 10.50	$ 6.90	2,056,852			
August 31	$ 8.58	$ 5.70	1,277,667			
May 31	$ 10.38	$ 6.60	1,040,305			
February 28	$ 11.40	$ 5.46	2,424,275			
Total 1993	$ 11.40	$ 5.46	6,799,099			
1992						
November 30	$ 6.96	$ 3.12	2,639,328			
August 31	$ 3.06	$ 2.22	384,833			
May 31	$ 3.42	$ 2.40	187,150			
February 28	$ 3.60	$ 1.50	98,767			
Total 1992	$ 6.96	$ 1.50	3,310,078			

MDC Class A Subordinate Voting Shares

Toronto Stock Exchange Trading History: 1987 – 1998



Miles S. Nadal is Chairman of the Board, and President and C.E.O. of MDC Communications Corporation. Under Mr. Nadal's leadership, the company has grown from its start-up in 1980 to a diversified international corporation with revenues of over $280 million, and almost 3,000 employees worldwide. Mr. Nadal serves on the boards of several community and charitable organizations, including Junior Achievement of Canada, the Schulich School of Business, the Canadian Weizmann Institute of Science, Mount Sinai Hospital, and the Baycrest Hospital Board of Governors.

Ronald D. Besse, a Director since 1988, is Chairman, President and C.E.O. of Canada Publishing Corporation, and Chairman and President of RDB Capital Corporation. Mr. Besse serves on the boards of several Canadian and international companies, including Rogers Communications Inc., and Luxembourg Holding Group. He is also Chairman of the Board of Directors for C.I. Fund Management Inc.

Thomas N. Davidson, a Director since 1988, is an industrialist and venture capitalist. He is Chairman of the Quarry Hill Group of companies, and is a director of several Canadian and international companies including Lucas Variety, Derlan Industries Limited, and Nations Bank of South Florida. Mr. Davidson resides in Monroe County, Florida.

Lloyd S.D. Fogler, QC, a Director since 1986, is a senior partner in the law firm of Fogler, Rubinoff, Barristers & Solicitors. Mr. Fogler serves on the boards of several public companies, including Brampton Brick Ltd., First Mercantile Currency Fund, First Marathon Inc., and Goldlist Properties Inc. Mr. Fogler is Chairman Emeritus of Mount Sinai Hospital; Chairman of the Mount Sinai Hospital Foundation of Toronto; and a director of the Canadian Opera Company.

Guy P. French, a Director since 1989, has held several senior executive positions in international consumer goods corporations as well as in the industrial products industry. He is a founding partner of the Toronto-based executive recruiting firm, corso, mizgala + french, which commenced operations in 1992. Mr. French serves on the boards of several companies, including Working Ventures Canadian Fund Inc., and S.C. Johnson & Son Ltd.

Patricia O. Frost, a Director since 1995, is retired from her career as an elementary school principal. Ms. Frost is a Director of the BankUnited Financial Corporation; Chairman of the Board of Trustees, Florida International University (Miami); Chairman of the Board of Commissioners of the National Museum of American Art, Smithsonian Institution; as well as a Commissioner on the National Board of the Smithsonian Institution. She also serves on the boards of the United Way, Fairchild Tropical Gardens, and WPBT Channel 2 public television. Ms. Frost resides in Miami Beach, Florida.

Albert Gnat, QC, a recently appointed Director, is a partner in the law firm of Lang Michener Barristers & Solicitors, and serves on the boards of several Canadian and international organizations. Mr. Gnat specializes in corporate and commercial practice encompassing securities, mergers and acquisitions, and finance transactions, and serves as the senior legal advisor for several major public and private corporations.

Peter M. Lewis, a Director since 1994, is Executive Vice-President, Corporate Development, MDC Communications Corporation. Prior to joining MDC, Mr. Lewis was a partner at Price Waterhouse, consulting in the field of mergers and acquisitions.

Dr. Brian H. Price, a Director since 1987, graduated from the Faculty of Dentistry, University of Toronto, in 1972. After establishing a private practice in Toronto, he opened over 100 dental offices in shopping malls across Canada. Today Dr. Price is the President of Price International Inc., a merchant banking company with investments in the health care industry.

Stephen M. Pustil, a Director since 1992, and Vice-Chairman of the Board, is President of Penwest Development Corporation Ltd., a real estate development and construction firm that he established in 1972. Mr. Pustil, a chartered accountant, also serves as Vice-Chairman on the Board of Mount Sinai Hospital.

Graham W. Savage, a Director since 1996, is a principal of Parkview Capital Partners Inc., a merchant bank. He was for many years an executive at Rogers Communications Inc., serving from 1989 to 1996 as C.F.O. Mr. Savage serves on the boards of several companies, including Canadian Tire Corporation Limited, Lions Gate Entertainment Corp., and Vitran Corporation Inc.

THE EXECUTIVE COMMITTEE

Chairman:

Miles S. Nadal

Members:

Lloyd S.D. Fogler, QC

Stephen M. Pustil

Responsibilities:

During intervals between full meetings of the Board of Directors, the Executive Committee may undertake the business of the Board — excluding responsibilities specified in subsection 127(3) of the Business Corporations Act, 1982 (Ontario) — in all areas where specific direction has not been given by the Board. All expenditures authorized by the Executive Committee are reported to the Board of Directors at its next meeting. The Executive Committee maintains minutes of its meetings which are submitted to the Board for approval.

Specific responsibilities include:

- To study and make recommendations to the Board on new policies concerning the orientation, expansion, and development of the Corporation.
- To study and make recommendations on annual and long-term plans for approval by the Board.
- To recommend to the Board annual budget projections.
- To study and recommend to the Board any capital expenditure plans.
- To review operating results for each quarter and the year-to-date.
- To deal with all matters, including guarantees, commitments, purchases of shares or assets for amounts under $500,000.
- To give prior authorization on capital expenditures for amounts of $300,000 or less not included in the annual budget.
- To recommend to the Board all matters concerning a change affecting any of the Corporation's bankers.
- To examine and recommend any proposal involving significant changes in management of the business, major acquisitions, and commitments for investments for reference to the Board.
- Any other responsibilities specifically delegated by the Board.

THE AUDIT COMMITTEE

Chairman:

Thomas N. Davidson

Members:

Lloyd S.D. Fogler, QC

Miles S. Nadal

Stephen M. Pustil

Graham W. Savage

Responsibilities:

To review all financial statements, annual and interim, intended for circulation among shareholders and to report upon these to the Board. In addition, the Board of Directors may refer to the Audit Committee on other matters and questions relating to the financial position of the Corporation and its affiliates.

THE CORPORATE GOVERNANCE COMMITTEE

Chairman:

Stephen M. Pustil

Members:

Ronald D. Besse

Graham W. Savage

Responsibilities:

The Corporate Governance Committee is composed of three members, all of which are unrelated directors. The committee is responsible for reviewing and making recommendations to the Board with respect to developments in the area of corporate governance and the practices of the Board. The committee is also responsible for evaluating the performance of the Board as a whole as well as individual Board members and for reporting to the Board with respect to appropriate candidates for nominations to the Board.

THE COMPENSATION COMMITTEE

Chairman:

Stephen M. Pustil

Members:

Ronald D. Besse

Thomas N. Davidson

Responsibilities:

- To determine the compensation of all senior officers of the Corporation.
- To discuss personnel and human resource matters including recruitment and development, management succession and benefit plans.
- To grant options under the Corporation's Employee Stock Option Incentive Plan.

In addition, the Board may refer to the Committee other matters and questions relating to compensation of management employees of the Company and its affiliates.

BOARD OF DIRECTORS

Chairman:

Miles S. Nadal

Members:

Ronald D. Besse

Thomas N. Davidson

Lloyd S.D. Fogler, QC

Guy P. French

Patricia O. Frost

Albert Gnat, QC

Peter M. Lewis

Dr. Brian H. Price

Stephen M. Pustil

Graham W. Savage

CORPORATE OFFICERS

Miles S. Nadal
President & Chief Executive Officer

Peter M. Lewis
Executive Vice-President, Corporate Development

Michel Frappier
Vice-President of the Corporation & President, Communications and Marketing Services Division

Graham Searle
Vice-President of the Corporation & President & Chief Operating Officer, Security and Specialty Products Division

Gregory J. McKenzie
Vice-President of the Corporation & President & Chief Operating Officer, Security Card Services Group

Jon A. Hantho
Vice-President of the Corporation & President & Chief Operating Officer, Business & Technology Services Group

Walter Campbell
Senior Vice-President, Finance & Corporate Secretary

Paul Kelly
Senior Vice-President, Corporate Development

Janice R. Wadge
Senior Vice-President, Business Planning

Gordon A. Kilpatrick
Director, Corporate Development

Ronald J. Sneek
Director of Finance & Corporate Controller

C. Sanford McFarlane
Chairman & Chief Executive Officer Davis + Henderson

Robert J. Cronin
President & Chief Operating Officer Davis + Henderson

Maria Pappas
Assistant Secretary

MDC COMMUNICATIONS CORPORATION

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AUDITORS
BDO Dunwoody

BANKERS
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Canadian Imperial Bank of Commerce
Bank of Nova Scotia

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CIBC Mellon Trust Company
CIBC Mellon Trust Company operates a telephone information inquiry line that can be reached by dialing toll-free 1-800-387-0825 or (416) 813-4600. Correspondence may be addressed to:
MDC Communications Corporation c/o CIBC Mellon Trust Company
Corporate Trust Services
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5G 2M7

INVESTOR RELATIONS
For Investor Relations information please call Maria Pappas, Co-ordinator, (416) 960-9000 extension 222.

STOCK EXCHANGE LISTING
The Class A Shares of the Company are listed on The Toronto Stock Exchange and on the American Stock Exchange in the United States.

TORONTO STOCK EXCHANGE TRADING SYMBOL
MDZ.A

AMERICAN STOCK EXCHANGE TRADING SYMBOL
MDQ

NOTICE OF SHAREHOLDERS' MEETING
The annual meeting of shareholders will be held Thursday, May 21, 1998 at 4:30 p.m. at the Design Exchange, Toronto Dominion Centre, 234 Bay Street, Trading Floor, Toronto, Ontario.

CREDITS
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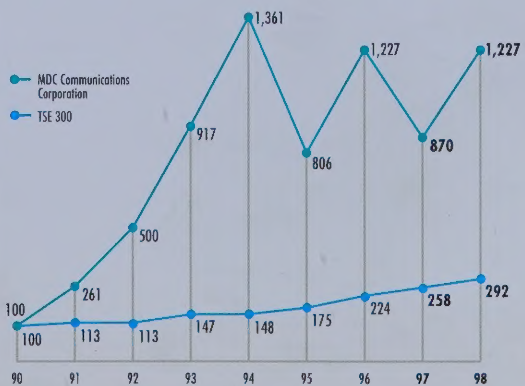
Cumulative Value of $100 Investment

In Canadian dollars,
as of each fiscal year end and the first quarter of 1998



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clearly **focused**

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